



# FHA Underwriting Guidelines

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# MiMutual Underwriting

## *Philosophy*

MiMutual underwrites and purchases all types of residential mortgages. These programs and products can be found in our Product Matrices (located on our website at [www.michiganmutual.com](http://www.michiganmutual.com)) and on our daily rate sheet. The Product Matrices will reference specific product features and requirements (such as maximum Loan-to-Value ratios and minimum credit score requirements, if any). This guide is intended to address unique underwriting situations.

MiMutual uses Automated Underwriting Systems (AUS). Generally, underwriters validate to the conditions set forth by the AUS. However, there are circumstances where underwriters will need to add conditions to the loan. These guidelines are meant to serve as a guide for obtaining adequate documentation to enable us to satisfy those conditions.

MiMutual underwrites a borrower's creditworthiness based solely on information that we believe is indicative of the applicant's willingness and ability to pay the debt they would be incurring. We prudently underwrite to agency standards and guidelines. Due to a multitude of factors involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits. MiMutual's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided, and the property used to collateralize the debt.

Our commitment to fairness and equal opportunity is clear and unequivocal. The application of fair and consistent underwriting practices is mandated in the underwriting guidelines outlined in this guide. All loans considered for denial will be subject to a second level review prior to a final decision.

As our guidelines and processes are impacted by external market conditions, it will be necessary for us to reevaluate the guidelines in this manual from time to time. Occasionally, revisions will be made. As applicable, corporate written notifications and updates will be provided to you and incorporated into these guidelines.

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## Program Description

The Federal Housing Administration (FHA) was established as a division of the U.S. Department of Housing and Urban Development (HUD) in 1934 to expand national homeownership opportunities, increase minority homeownership, make the home buying process less complicated and expensive, and keep existing homeowners from losing their homes. The FHA administers a variety of residential mortgage insurance programs.

The underwriting information contained in this section is intended for use in conjunction with HUD/FHA Guidelines. Unless otherwise stated, all FHA loans must conform to applicable FHA one-to-four family housing requirements as well as federal, state, and local law compliance. All loans must be insurable by FHA and eligible for inclusion in pools of mortgage-backed securities fully guaranteed by the Government National Mortgage Association (Ginnie Mae). MiMutual reserves the right to deny any loan which does not meet these guidelines/requirements. To the extent that any conflicts exist between the provisions set forth in the HUD/FHA guidelines and MiMutual's guidelines, then MiMutual's guidelines described here should be followed.

In addition to program eligibility and prudent underwriting, MiMutual requires all loans to meet the Ability to Repay rules established by the Consumer Financial Protection Bureau (CFPB). The ATR Rule requires that a reasonable, good faith determination is made before or when the loan is consummated, and that the consumer has a reasonable ability to repay the loan. The eight underwriting factors established by the CFPB must be considered, and the loan must be documented accordingly.

1. The borrower's current or reasonably expected income or assets;
2. The borrower's current employment status;
3. The borrower's monthly payment on the covered transaction;
4. The borrower's monthly payment on any simultaneous loan;
5. The borrower's monthly payment for mortgage-related obligations;
6. The borrower's current debt obligations, alimony, and child support;
7. The borrower's monthly debt-to-income ratio or residual income; and
8. The borrower's credit history

**Additionally, MiMutual will only underwrite/close loans that are Qualified Mortgages (QMs) which meet the criteria for Safe Harbor (unless specific requirements are met for QM with Rebuttable Presumption).**

- No risky features permitted (we do not currently offer loans with features the CFPB considers "risky")
- Higher Priced Mortgage Loans (HPMLs) are acceptable providing either:
  - The loan meets ATR/QM Safe Harbor requirements, which means that, at the time the interest rate on the loan was locked, the APR was not greater than the Average Prime Offer Rate (APOR) + (1.15% + the annual MIP)
  - The loan meets the criteria as outlined in the guidelines for [QM with Rebuttable Presumption](#)

All loans must be prudently underwritten by MiMutual and be of sound investment quality. Loans having serious credit and/or property deficiencies may be denied at the option of MiMutual.

**Note:** *Unless specifically stated, guidance contained in this document assumes the loan received an Approve/Eligible recommendation. Manual underwrites require compliance with Agency guidelines. Refer to the [4000.1](#) for detailed direction regarding manual underwriting requirements.*

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## Requirements and Restrictions

### Loan Requirements

- 15, 20, 25 and 30 year fixed rate terms available.
- [5/1 ARM](#) available (30 year term).
- Minimum 580 credit score (regardless of AUS decision). Scores < 640 may not be manually underwritten
- Maximum base loan amount of \$424,100, subject to the [Nationwide Mortgage Limits](#). Under most programs, the maximum mortgage amount is the lesser of the Nationwide Mortgage Limit for the area, or a percentage of the [Adjusted Value](#). FHA increased mortgage amounts over \$424,100 are available in certain areas. See [FHA High Limit Area Loans criteria](#)
  - For loans with case numbers assigned on/after January 1, 2018, maximum base loan amount is \$453,100 (unless loan qualifies for High Limit Areas)
- Maximum number of borrowers allowed on a loan is 4
- DO/DU findings reflecting Approve/Eligible and Refer/Eligible (manual underwrites) are acceptable.

### Loan Restrictions (Ineligible)

- FHA Section 8 Loans
- FHA Military Impact Loans
- FHA Loans to Non-Profit Organizations
- HOPE for Homeowners Program
- HUD 184 Program (Indian Reservations)
- FHA loans based solely on non-traditional credit history (borrower must have traditional credit with valid credit scores)
- FHA HECMs (Reverse Mortgages)
- Refinance loans that have been restructured due to a financial hardship / in forbearance / short payoff loans
- Any loans with an existing PACE/HERO loan that is not being paid off. These liens may not remain outstanding.

### LTV/CLTV Maximums

#### **Purchase**

- 96.5% of the adjusted value is the maximum LTV (Does not apply to purchase of HUD REO transactions that qualify for the \$100 down program)
- There is no maximum CLTV with acceptable subordinate financing from government agencies

#### **Rate/Term Refinance**

- 97.75% maximum LTV/CLTV with acceptable subordinate financing

#### **Streamline Refinance**

- There is no maximum CLTV for streamline refinances

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**Cash Out Refinance**

- 85% maximum LTV/CLTV for all cash out transactions

***Qualified Mortgages with Rebuttable Presumption***

This policy is intended for loans that are considered Qualified Mortgages (QM) with rebuttable presumption, and therefore do not meet QM safe harbor requirements.

FHA loans that are considered Higher Priced Mortgage Loans (HPMLs) are permitted, providing the following criteria are met:

- Loan passes QM Points and Fees test
- Approve/Eligible findings (n/a for Streamlines)
  - Loans with Approve/Eligible findings that are required to be manually downgraded are not eligible
- HPML disclosure must be signed by borrower at least 24 hours prior to closing
- An appraisal must be obtained by a certified or licensed appraiser who conducts a physical visit of the interior of the subject property (n/a for Streamlines)
- An additional appraisal by a separate appraiser may be needed if:
  - The seller acquired the property 90 days or less prior to the consumer agreement was signed and the agreement exceeds the seller's acquisition price by more than 10%, or
  - The seller acquired the property 91 to 180 days prior to the consumer agreement and the price exceeds the seller's acquisition price by more than 20% (n/a for streamlines)
- Cannot waive appraisal delivery timing – borrower must receive appraisal at least 3 days prior to closing (n/a for Streamlines)
- An escrow account for payment of property taxes and insurance premiums is required

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## Manual Downgrades

*Unless specifically stated, guidance contained in this document assumes the loan received an Approve/Eligible recommendation. Manual underwrites require compliance with Agency guidelines. Refer to the 4000.1 for detailed direction regarding manual underwriting requirements.*

MiMutual must downgrade and manually underwrite any mortgage that received an Accept recommendation if:

- The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Scorecard;
- Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage;
- The borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts;
- The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- The case number assignment date is within three years of the date of the transfer of title through a pre-foreclosure sale (short sale);
- The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- The mortgage payment history, for any mortgage tradeline reported on the credit report used to score the application, requires a downgrade;
- The borrower has undisclosed mortgage debt that requires a downgrade; or
- Effective Income from the business shows a greater than 20% decline over the analysis period

If a determination is made that the mortgage must be manually downgraded, MiMutual must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded mortgage.

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## Collateral Requirements

*To be eligible for FHA Insurance, a property is to be free of health and safety hazards and major structural problems.*

### *Eligible Collateral*

- Single Family Residence
- 2-4 Unit Dwellings
  - Non-occupying co-borrowers not allowed for LTVs over 75%
  - A completed HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property*, must be obtained on all 2-4 unit properties
- Planned Unit Developments (PUDs)
- Townhouse / Rowhome
- Condominiums - see below requirements
- Log / Dome / Berm Homes, homes with Pier Foundations, Auxiliary/Accessory Dwelling Units, homes with extreme functional obsolescence (i.e. one bedroom). Must be common and typical for the area, and have like comparables
- Modular Homes
- Properties located in age-restricted communities. Must be common and typical for the area, and have like comparables

### *Ineligible Collateral*

- New Construction Condos
- Mobile/Manufactured Homes
- Properties with Agricultural or Commercial/Industrial use
- Leasehold Properties (title must be held in Fee Simple interest)
- Properties currently listed for sale (refinances)
- Non-Owner Occupied Properties
- 2<sup>nd</sup> Homes
- Time-Share Units
- Construction Financing
- Properties vested in Life Estates (refinance transactions)
- Cooperative units
- Properties located on a repaired sinkhole
- Any land, building, property, structure, etc in which there is knowledge of an illegal activity occurring past or present (based on federal or state law), regardless of whether any income or assets are being derived from the illegal activity. Property alterations cannot be made to achieve collateral eligibility

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## Appraisals

MiMutual is responsible for obtaining an appraisal to verify the value of the property, and that the property meets the Property Acceptability Criteria, which includes HUD's Minimum Property Standards (MPS) or Minimum Property Requirements (MPR). Minimum Property Standards refer to regulatory requirements relating to the safety, soundness, and security of new construction. Minimum Property Requirements refer to general requirements that all homes insured by FHA be safe, sound, and secure. See guidance in the [4000.1](#) for detailed descriptions of both MPS and MPR items.

When examination of a property reveals noncompliance with the Property Acceptability Criteria, the appraiser must note all repairs necessary to make the property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. MiMutual must confirm that the property complies with all eligibility criteria as described in the [4000.1](#), or if the loan is to be insured under the 203(k) program, that the property will comply with the eligibility criteria upon completion of repairs and improvements. MiMutual must also use professional judgment in determining when a property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the property, such that additional inspections and/or repairs are necessary.

### **Appraiser Independence**

MiMutual follows HUD/FHA's Appraiser Independence requirements. Lenders (such as MiMutual) are now prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker (or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan)". Mortgage brokers must use the following procedures when ordering an appraisal assignment.

MiMutual must verify that Appraiser Independence is not compromised.

### **Uniform Appraisal Dataset (UAD)**

Appraisal reports must be completed in compliance with the Uniform Appraisal Dataset (UAD). This rule applies to all FHA mortgage loans.

The UAD defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields. UAD was formulated to improve the quality and consistency of appraisal data. The UAD does not change the look of the existing appraisal forms, but some fields on the forms are being extended to include additional information.

The appraisal forms that must be UAD-Compliant are:

- *Uniform Residential Appraisal Report* (FNMA Form 1004)
- *Individual Condominium Unit Appraisal Report* (FNMA Form 1073)

**NOTE:** *MiMutual is unable to accept properties with a Condition Rating of C5 or C6, nor a Quality Rating of Q6.*

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## **Appraisal Order Process**

MiMutual requires that all FHA appraisals are ordered through one of our designated Appraisal Management Companies (AMCs). MiMutual provides links on our website to order appraisals.

- Begin at the MiMutual website home page ([www.michiganmutual.com](http://www.michiganmutual.com)) to order your appraisal through your assigned AMC.
- Place FHA appraisal order in the name of MiMutual, Inc. as required by HUD/FHA (enter all pertinent data including payment information). All appraisals must be paid for with a credit card at the time order is placed.
- Upload any required documents (such as the Purchase Agreement and all addenda), and provide the appraiser with the FHA Case Number.
- The AMC will schedule the appointment with the borrower or realtor as appropriate and complete the appraisal report.
- Upon completion of the appraisal report, the AMC will upload the appraisal to MiMutual's system, and an email notification will be generated to inform the broker that it has been received.

A new appraisal must be ordered for each mortgage or refinance case number assignment. An appraisal that was performed under another case number, even if the prior appraisal is not more than 120 days old, may not be reused.

### ***Appraisal Integrity***

MiMutual is responsible for identifying any problems or potential problems with the integrity, accuracy, and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Additionally, we must ensure that FHA is listed on the appraisal report as an Intended User of the appraisal.

## **Revisions Due to Sales Contract Amendments**

If the agreement of sale / sales contract is amended during the appraisal process (prior to the Effective Date of the appraisal), MiMutual must provide the updated contract to the appraiser to ensure the appraiser has the opportunity to consider any changes and their potential impact on value.

If the agreement of sale / sales contract is amended subsequent to the Effective Date of the appraisal, but prior to loan closing, MiMutual must use due diligence in determining whether the amendment(s) could reasonably be thought to affect the estimated value of the property being used as security for the loan. If so, MiMutual must forward the amended agreement of sale to the appraiser for consideration. The appraiser will be responsible for determination of the impact of the amended sales agreement and compliance with all provisions of the USPAP in developing and reporting credible assignment results.

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## **Appraisal Delivery Requirements**

Under the Dodd Frank Act, Regulation B has been revised. The borrower is required to receive a copy of all valuation documents developed in connection with an application for a loan that is secured by a first lien on a dwelling. This includes:

- Appraisals
- Desk reviews
- AVMs / BPOs

MiMutual will deliver the valuation documents directly to the borrower. This will occur promptly upon completion of the documents or no later than three days prior to closing, whichever is earlier, *unless* the borrower chooses to waive their right to receive the valuation documents prior to closing on the Appraisal Delivery Timing Waiver disclosure. In this case, the valuation documents are not required to be delivered 3 days prior to closing, but must **always** be delivered at the time of consummation (at the latest).

## **Appraisal Report Forms**

The appraiser must complete the Fannie Mae Form 1004MC/Freddie Mac Form 71, *Market Conditions Addendum to the Appraisal Report*, for every appraisal. Other forms to be used in the completion of an FHA appraisal are as follows:

- **Single Family, Detached, Attached, or Semi-Detached Residential Property:** Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*
- **Single Unit Condominium:** Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*
- **Small Residential Income Properties (Two to Four Units):** Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*
- **Update of Appraisal (All Property Types):** Summary Appraisal Update Report Section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*. See [Appraisal Updates](#) for further details.
- **Compliance or Final Inspection:** Certification of Completion Section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*

## **Value Reconsideration Request**

Reconsideration requests must be uploaded for review by the underwriter, and include at least one of the following in order to qualify for the continuance of the appeal process:

- Provide a previous appraisal dated no more than twelve (12) months prior to the effective date of the appraisal being appealed. *Comps in the previous appraisal will not be assessed if sale dates are > 90 days from the new appraisal effective date; however, information in the appraisal regarding amenities, square footage, etc will be given consideration.*
- Provide a minimum of 2 and up to 5 alternate open market sales, including all available data and MLS ticket, which have closed within 90 days of the appraisal effective date. *Active listings and closed sales after the effective date of the appraisal will not be accepted.*

If the underwriter agrees that a reconsideration of value is warranted, they will forward to the AMC. The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of the data is not the fault of the borrower, the borrower must not be held responsible for the additional costs.

A request for value reconsideration does not guarantee an adjustment in value.

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**Appraisal Portability**

In transactions where a borrower has switched mortgagees, the first lender must, at the borrower's request, transfer the appraisal to the second mortgagee within five business days. FHA does not require that the client name (lender name) on the appraisal be changed when it is transferred to another lender. If the original mortgagee has not been reimbursed for the cost of the appraisal, the mortgagee is not required to transfer the appraisal until it is reimbursed.

The second mortgagee may not request the appraiser to re-address the appraisal. If the second mortgagee finds deficiencies in the appraisal, the mortgagee must order a new appraisal.

Where a mortgagee uses an existing appraisal for a different borrower, the mortgagee must enter the new borrower's information in FHAConnection. The mortgagee must collect an appraisal fee from the new borrower and refund the fee to the original borrower.

If a Case Transfer is involved, the new mortgagee must enter the borrower's information in FHAConnection. The new mortgagee must collect an appraisal fee from the borrower, and send the fee to the original mortgagee, who, in turn, must refund the fee to the original borrower.

***Correspondent Transfers***

The following documents must be uploaded by the Correspondent to MiMutual's website:

- Appraisal (PDF format)
- Invoice
- Appraiser Independence Cert

The Appraisal in XML format must be emailed to [cta@mimutual.com](mailto:cta@mimutual.com).

If the mortgagee on the transferred appraisal is not the current borrower, and the appraisal invoice reflects payment was received, the correspondent will have to provide documentation of payment for the appraisal to the prior lender listed on the appraisal.

***Broker Transfers***

The FHA Case Number Assignment must be transferred by the broker to MiMutual.

All documents related to the appraisal must be emailed to [cta@mimutual.com](mailto:cta@mimutual.com).

- Appraisal in PDF **and** XML Formats
- Invoice
- Appraiser Independence Certificate

If the mortgagee on the transferred appraisal is not the current borrower, and the appraisal invoice reflects payment was received:

- The broker must obtain authorization from the borrower to provide payment in the amount listed paid on appraisal invoice.
- Payment can be made via credit card by phone by contacting Michigan Mutual's First Impressions Specialist at 810-982-9948 (ext. 11100).
- The broker must be prepared to provide the reason for the request (FHA Appraisal Reimbursement), along with the prior lender & borrower information, for accounting to forward payment.

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## **Second Appraisals**

As required by FHA in cases of property flipping (see [Purchase Transactions](#) section for additional requirements). MiMutual is prohibited from ordering an additional appraisal to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs required.

If a second appraisal is required on a 203(k) loan, it must be completed as-is.

### ***Second Appraisal by Original Mortgagee***

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency. The mortgagee must fully document the deficiency and status of the appraisal in the mortgage file. The mortgagee must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. Material deficiencies include, but are not limited to:

- failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- fraudulent statements or conclusions when the appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.

### ***Second Appraisal by Second Mortgagee***

A second appraisal may only be ordered by the second mortgagee under the following limited circumstances:

- the first appraisal contains material deficiencies as determined by the underwriter for the second mortgagee;
- the appraiser performing the first appraisal is prohibited from performing appraisals for the second mortgagee; or
- the first mortgagee fails to provide a copy of the appraisal to the second mortgagee in a timely manner, and the failure would cause a delay in closing and harm to the borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

For the first two cases outlined above, MiMutual must rely only on the second appraisal and ensure that copies of both appraisals are retained in the file. For the third case above, the first appraisal must be added to the file if it is received.

***NOTE: In all cases where a second appraisal is obtained, MiMutual must document why the second appraisal was ordered, and retain the explanation and all appraisal reports in the case binder. The cost of the second appraisal may not be charged to the borrower.***

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## **Appraisal Updates**

An appraisal update may only be ordered if:

- MiMutual is listed as an Intended User of the original appraisal, or
- We have received permission from the original client and the appraiser

The appraiser incorporates the original report being updated by attachment rather than by reference.

An update of the appraisal may only be used if:

- It is performed by the FHA appraiser who performed the original appraisal, who is currently in good standing on the FHA Appraisal Roster;
- The property has not declined in value;
- The building improvements that contribute value to the property can be observed from the street or a public way;
- The exterior inspection of the property reveals no deficiencies or other significant changes;
- The update of appraisal was ordered by the mortgagee and completed by the appraiser prior to the expiration date of the initial 120-day period; and
- The original appraisal report was not previously updated

## **Appraisal Effective Date**

The effective date of the appraisal cannot be before the FHA case number assignment date unless MiMutual certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by a FHA Roster Appraiser. MiMutual must ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions and the [Appraisal Report and Data Delivery Guide](#). The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the property securing the FHA-insured mortgage. Additionally, FHA and MiMutual must be indicated as the intended users of the appraisal report. If applicable, MiMutual must retain documentation in the case binder substantiating conversion of the mortgage to FHA.

## **Appraisal Validity Period**

FHA appraisals are valid for **120 days** for all property types: existing, proposed construction, and under construction. See Appraisal Update and/or Completion Report Form 1004D under [Appraisal Report Forms](#) regarding appraisal extensions. For appraisal validity on HUD REO transactions, reference the [HUD REO](#) chapter.

The 120 day validity period for an appraisal may be extended at the underwriter's discretion, if:

- MiMutual approved the borrower before the expiration date of the original appraisal (approval of the borrower occurs when the DE underwriter signs the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT)); or
- The borrower signed a valid sales contract prior to the expiration date of the appraisal.

In these cases, the loan must close within 150 days: 120 day validity period for original report plus 30 day extension if the appraisal has not been updated with an Appraisal Update Report (FNMA Form 1004D).

Appraisals cannot be re-used after the mortgage for which the appraisal was ordered has closed. A new appraisal is required for each transaction requiring an appraisal. Example: An appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if 120 days has not passed.

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## **Minimum Photograph Requirements**

The appraiser must provide photographs as required below, and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the appraiser's observation and analysis.

### ***Subject Property Exterior***

- Front and rear at opposite angles to show all sides of the dwelling
- Improvements with contributory value not captured in the front or rear photograph
- Street scene photograph to include a portion of the subject site
- For new construction, include photographs that depict the subject's grade and drainage

### ***Subject Property Interior***

- Kitchen, main living area, bathrooms, bedrooms
- Any other rooms representing overall condition
- Basement, attic, crawl space
- Recent updates, such as restoration, remodeling, and renovation
- For two- to four-unit properties, also include photographs of hallways, foyers, laundry rooms, and other common areas

### ***Comparables Sales, Listings, Pending Sales, Rentals, Etc***

- Front view of each comparable utilized
- Photographs taken at an angle to depict both the front and the side when possible
- Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, appraisers must include their own photographs as well, to document compliance

### ***Subject Property Deficiencies***

- Photographs of the deficiency or condition requiring inspection or repair

### ***Condominium Projects***

- Additional photographs of the common areas and shared amenities of the condominium project

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## *Adjusted Value*

The adjusted value is used to determine the maximum mortgage amount.

### **Purchase Transactions**

For purchase transactions, the adjusted value is the lesser of:

- Purchase price, less any inducements to purchase; or
- The property value

### **Refinance Transactions**

- For properties acquired by the borrower within 12 months of the Case Assignment date, the adjusted value is the lesser of:
  - The borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
  - The property value
- Properties acquired by the borrower within 12 months of application by inheritance or through a gift from a [family member](#) may utilize the calculation of adjusted value for properties purchased 12 months ago or greater
- For properties acquired by the borrower greater than or equal to 12 months prior to the Case Assignment date, the adjusted value is the property value

## *FEMA Declared Disaster Area Policy*

The FEMA Declared Disaster Area Policy applies to all areas eligible for individual assistance due to a federal government disaster declaration.

If the subject property has had an appraisal completed prior to a declared disaster, prior to the end date of a declared disaster, or after a declared disaster with no comments addressing the post-disaster condition of the property from the appraiser, a 1004D or another form of disaster inspection, with photos and comments regarding the impact of the disaster to the property (if any), must be obtained.

The type of disaster will determine whether an interior/exterior or just an exterior inspection is required. If the event was such that the damage will be visible from the street (ex: tornado), an exterior-only inspection is permitted. If the event was one that could cause damage that must be viewed from the interior (for example, flooding), an interior/exterior inspection is required.

Damage inspections may not be performed until after the incident period end date (as determined by FEMA) is declared, and should be completed by the original appraiser. However, if the original appraiser is not available, another FHA Roster appraiser in good standing with geographic competence in the affected market may be used. If a different appraiser is used to inspect the property, the appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.

FHA Streamline Refinance transactions without an appraisal require a property inspection when the subject property is located in a Presidentially Declared Disaster area, if the closing will occur within 90 days of the disaster incident period end date. The property inspection requirement may be satisfied with the Fannie Mae form 2075 (exterior only property inspection report) or a property inspection prepared by a licensed inspector. If there is any indication of damage or negative impact on marketability, an interior inspection must be performed. Any repairs that are required as a result of the inspection must be completed prior to closing.

## *Modular Home Eligibility*

MiMutual allows loans secured by modular homes built in accordance with the Uniform Building Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed. Loans secured by on-frame modular construction are not eligible for financing with MiMutual. On-frame modular construction is defined as having a permanent chassis, but no evidence of compliance with the June 15, 1976, Federal Manufactured Home Construction and Safety Standards.

Loans secured by prefabricated, panelized, or sectional housing are eligible. These properties do not have to satisfy HUD's Federal Manufactured Home Construction and Safety Standards or the Uniform Building Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.

Factory-built housing not built on a permanent chassis such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties

- must assume the characteristics of site-built housing,
- must be legally classified as real property, and
- must conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records, and must represent a single real estate transaction under applicable state law.

MiMutual affords modular, prefabricated, panelized, or sectional housing homes the same treatment as site-built housing. Therefore, MiMutual does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

## *Special Flood Hazard Areas (SFHAs)*

MiMutual will determine if a property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). We will obtain a flood zone determination, independent of any assessment made by the appraiser to cover the Life of the Loan Flood Certification.

A property is not eligible for FHA insurance if:

- a residential building and related improvements to the property are located with SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within a Coastal Barrier Resource System (CBRS)

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**Proposed / New Construction in SFHAs**

If any portion of the property improvements (the dwelling and related structures/equipment essential to the value of the property and subject to flood damage) is located within a SFHA, the property is **not** eligible for FHA mortgage insurance *unless*:

- A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from FEMA, **or**
- MiMutual obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 81-31), if the property is not removed from the SFHA by a LOMA or LOMR. The flood elevation certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria. The flood elevation certificate must be prepared by a licensed engineer or surveyor and completed based on finished construction. Insurance under the NFIP must be obtained.

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood elevation certificate is required.

The LOMA, LOMR, or flood elevation certificate must be submitted with the case for endorsement.

See [Flood Insurance](#) for further information.

*Repair Escrows*

When the appraisal report or inspection from a qualified entity indicates that repairs are required to make the property meet HUD's MPR or MPS, MiMutual must comply with Repair Requirements. If repairs for existing construction cannot be completed prior to closing, MiMutual may establish a repair escrow in accordance with [Repair Escrow Guidelines](#).

*Acreage*

No maximum number of acres; however, property cannot have agricultural use, and comparable sales must have similar acreage.

*Legal Restrictions on Conveyance*

MiMutual must determine if there are any legal restrictions on conveyance.

A property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible for FHA-insured financing but only when such agreements are free of restrictions that prevent the borrower from freely transferring the property. See the [4000.1](#) for further detail.

**Leased Equipment**

The property value may not include the value of any equipment, including an energy system, which is not fully owned by the borrower. MiMutual must review the terms of the lease on any equipment to ensure they do not contain any Legal Restrictions on Conveyance (Free Assumability).

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## *Age-Restricted Communities*

Certification from the HOA will be required, verifying:

- Community must be intended and operated for occupancy by persons 55 years of age and older
- At least 80% of the occupied units must be occupied by at least 1 person who is 55 years of age or older

## *Effective Age and Remaining Economic Life*

The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual age and effective ages requires an explanation.

The appraiser is required to indicate the estimated remaining economic life of the subject property as a single number or as a range for all property types, including condominiums (must be deemed acceptable for at least the term of the new mortgage). The appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.

## *Zoning*

FHA requires the property to comply with all applicable zoning ordinances. The appraiser must determine if the current use complies.

If the existing property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the appraiser must report the property as Legal Non-Conforming and provide a brief explanation. The appraiser must analyze and report any adverse effect that the non-conforming use has on the property's value and marketability, and state whether the property may be legally rebuilt if destroyed.

Illegal properties are not eligible for FHA financing.

## *Externalities*

Externalities refer to off-site conditions that affect a property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas lines, overhead electric power transmission lines and local distribution lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

The appraiser must report the presence of externalities so that MiMutual can determine eligibility. For detailed direction regarding each of these externalities, please refer to the [4000.1](#).

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## Properties Listed For Sale within the Last 6 Months (Refinances)

### **Cash Out Transactions**

The MLS listing is required to be cancelled at least six months prior to disbursement or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to loan disbursement. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required.

### **Rate/Term Transactions**

The MLS listing is required to be cancelled prior to loan disbursement. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required.

**NOTE:** *These properties pose an increased risk to MiMutual, therefore may be subject to additional documentation and/or limitations.*

### *Attic*

It is the homeowner/seller's responsibility to provide clear access to this area. FHA appraisers are required to observe the attic. If unable to view the area safely in their entirety, the appraiser must reschedule a time when a complete visual observation can be performed, or complete the appraisal subject to an inspection by a qualified third party. In cases where access through a scuttle is limited and the appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the appraiser will suffice.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or the smell of mold), the appraiser must report this condition and render the appraisal subject to inspection and repairs if necessary.

### *Crawl Space*

There must be adequate access to the crawl space. At a minimum, the appraiser is required to make entry of the head and shoulders, and must visually observe all areas of the crawl space. The appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness, and security of the property.

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## Roof

### **Inspection and Life Expectancy**

The covering must prevent moisture from entering and provide reasonable future utility, durability and economy of maintenance. The appraiser must visually examine the roof to determine whether deficiencies present a health and safety hazard or do not allow for reasonable future utility. The roof should have a remaining physical life of at least two years. The appraiser must report if the roof has less than two years of remaining life, and make the appraisal subject to inspection by a professional roofer.

### **Snow Covered Roof**

In areas of the country where the snow is likely to lay for more than a few days:

- The appraiser is required to make an extra-thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials.
- If there is evidence of damage and/or leaks the appraiser is to condition for further inspection.
- If there is no evidence of damage and/or water leaks, the borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser/borrower without any warranty or guarantees from HUD/FHA and/or MiMutual.

In areas of the country where the snow **IS NOT** likely to lay for more than a few days, a clear roof inspection **by the appraiser** is to be obtained prior to closing.

## Multiple Parcels of Land

Properties with multiple parcels are only acceptable if one of the following criteria is met:

- All parcels were part of the original acquisition of the property as verified by the warranty deed.
- Any additional parcels included on title/appraisal are designated as non-buildable and cannot be legally split from the subject property. Appraiser must comment on this.

## Property Seasoning

### **Determining Phase of Construction**

The date on the Certificate of Occupancy will determine whether a property is considered as “Existing for Less than One Year”. This refers to a property that is 100% complete and has been completed less than one year from the date of the issuance of the C of O or equivalent. The property must never have been occupied.

### **Seller Seasoning (Purchases)**

Purchase transactions require the seller to be in title for a minimum of 91 days to be eligible for FHA financing.

**NOTE:** Bank-owned properties and HUD/FNMA/FHLMC-owned properties are not subject to the 90-day seller seasoning requirement.

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## Termite Inspections

For existing properties, MiMutual must confirm that the property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, MiMutual must obtain such inspection and evidence of any required treatment to confirm the property is free of wood destroying insects and organisms.

Wood destroying insects and other organisms can cause serious problems in the wooden structural components of a house and may go undetected for a long period of time. MiMutual requires a termite inspection (existing properties and new construction) when:

- Concerns are noted or observed within the loan file, or
- Called for in the sales or purchase agreement, or
- The appraiser notes there is evidence of active infestation; or
- Required/mandated by State/Local jurisdiction

In all Atlanta Homeownership Center Jurisdictional States where properties are located in TIP Zones 1 & 2 (see [TIP Zone map](#)), the builder must complete the form HUD-NPCA-99-A, Subterranean Termite Protection Builder's Guarantee, providing a 1-year guarantee and indicating that one of the following accepted treatment methods was used:

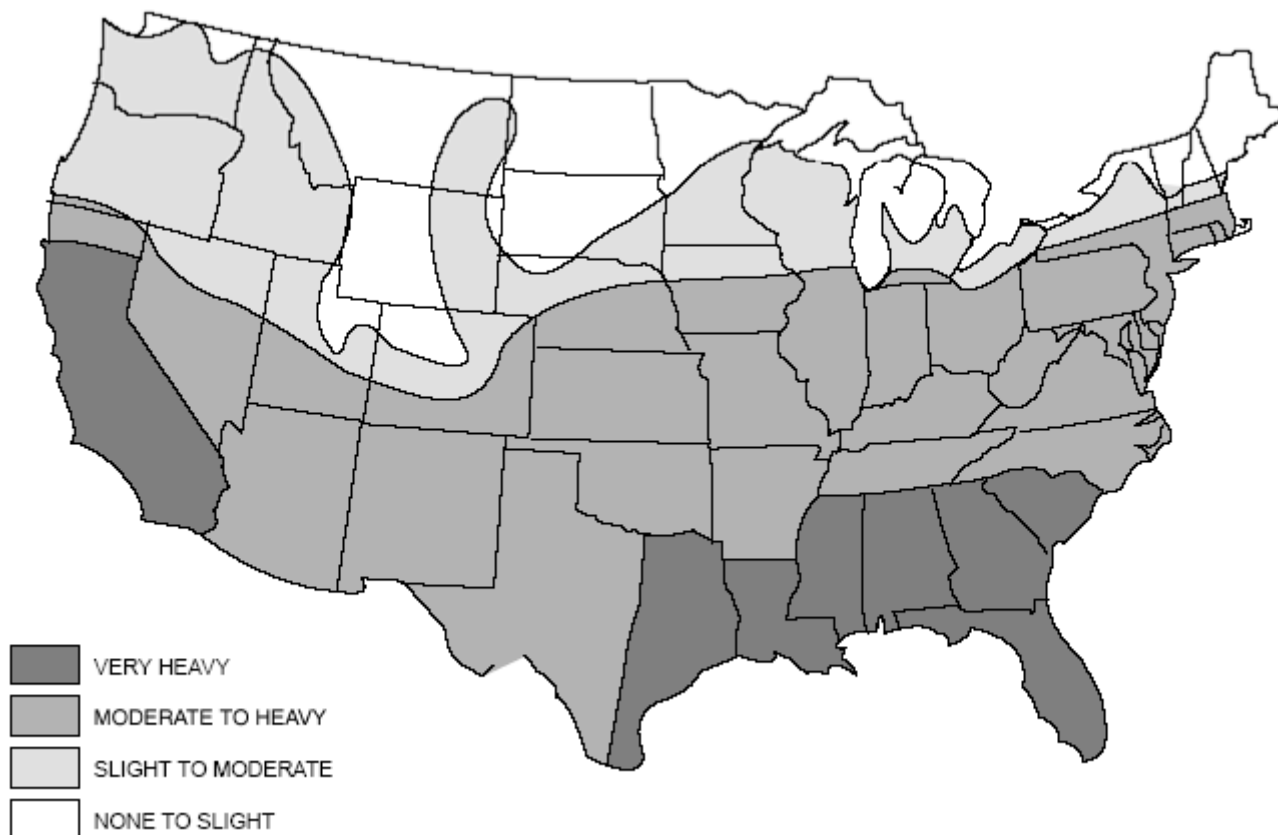
- Bait system, **OR**
- Wood (pressure preservative treated wood as outlined in ML 01-04) - Under "Type of Treatment", check the box titled "wood" and add statement "Complies with Mortgagee Letter 2001-04 for use of preservative treated wood", **OR**
- Soil (Chemical Soil treatment) - HUD-NPCA-99-B is to be used with form HUD-NPCA-99-A only if the property is treated with a soil termiticide. (The licensed pest control company is responsible for completing form HUD-NPCA-99-B, as appropriate, and providing it to the builder who is responsible for distribution. Please see ML99-03) **OR**
- Building using steel, masonry or concrete building components (with only minor interior wood trim and roof sheathing.) - Under "Type of Treatment" on form the builder is to add in the space to the right of the box titled "Soil" the statement "Masonry (steel, or concrete) construction, no treatment needed. Complies with ML 01-04."

The use of post-construction soil treatment where a chemical termiticide is applied only around the perimeter of the foundation is NOT acceptable.

**NOTE:** All chemical soil treatments, bait systems, and chemical wood treatments must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions.

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## Map of TIP (Termite Infestation Probability) Zones



## Water and Sewage Systems Requirements

### **Minimum Distance Between the Well and the Source of Pollution**

The following chart provides FHA's minimum distance requirement between the well and the potential source of contamination:

#### **Individual Water Supply System for Minimum Property Requirements (Existing Construction)\***

Source	Minimum Distance (feet)
Property line	10
Septic Tank	50
Drain Field	100
(Septic tank drain field reduced to 75 feet if allowed by local authority)	

*\*distance requirements of local authority prevail if greater than stated above*

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**Distance Sketch without a Well or Septic Report**

Although the appraiser is not required to sketch the distance between the well and septic, the appraiser should be mindful of FHA's minimum distance requirements and provide the distance between the well and septic on the sketch addendum to the appraisal report. A copy of a survey would be helpful for the appraiser to make the final determination, but it is not required. If the appraiser is not able to provide this information, a septic inspection with sketch may be required.

**NOTE:** *FHA has made an exception for the State of Michigan (based on state requirements): The minimum distance requirement between the well and the septic field is 75 feet.*

Currently, HUD allows for a lesser distance from the well to a soil-poisoned area (from 25 to 15 feet) or drain field (from 100 to 50 feet) if the well penetrates impervious strata of clay, hardpan or rock - in this case, the well drillers log is required. The well cannot be within 10 feet of any roadway or the property line of anything other than a single family residence (i.e. the well cannot be within 10 feet of a commercial, industrial or multifamily building).

**Water System*****Water Well Minimum Property Requirements for Existing Construction***

Each living unit must contain the following:

- Domestic hot water
- A continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
- Water flow of three to five gallons per minute
- No exposure to environmental contamination
- Water quality must meet requirements of local jurisdiction or the EPA if no local standard
- Sanitary facilities and a safe method of sewage disposal

***Water Well Minimum Property Standards for New Construction***

- Lead-free piping
- If no local chemical and bacteriological water standards, state standards apply
- Connection of public water whenever feasible
- Wells must deliver water flow of five gallons per minute over at least a four hour period

***Restrictions***

The property is Ineligible for an FHA-Insured loan if served by any of the following:

- Spring
- Lake
- River
- Cistern/Cesspool
- Well located within the foundation walls

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**Individual Water Supply System (Well)**

A well test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If there is knowledge that the well water may be contaminated;
- If the water supply relies upon a water purification system due to the presence of contaminants;
- If the appraiser suspects a problem and requires a water test;
- When there is evidence of:
  - Corrosion of pipes (plumbing)
  - Areas of intensive agriculture within ¼ mile
  - Coal mining or gas drilling operations within ¼ mile
  - Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within ¼ mile
  - Unusually objectionable taste, smell or appearance of well water

**Shared Well**

MiMutual must confirm that a Shared Well:

- Serves existing properties that cannot feasibly be connected to an acceptable public or community water supply system;
- Is capable of providing a continuous supply of water to involved dwelling units so that each existing property simultaneously will be assured of at least three gallons per minute (five gallons per minute for proposed construction) over a continuous four hour period. The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties;
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Drinking Water Regulations;
- Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other properties; and
- Serves no more than four living units or properties.

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For both proposed and existing properties, MiMutual must ensure that the Shared Well Agreement reflects the provisions below in order to be determined acceptable:

- Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any mortgagee holding a mortgage on any property connected to the shared well
- Permit well water sampling and testing by the local authority at the request of any party at any time
- Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties
- Ensure continuity of water service to “supplied” parties if the “supplying” party has no further need for the shared well system (“supplied” parties normally should assume all costs for their continuing water supply)
- Prohibit well water usage by any party for other than bona fide domestic purposes
- Prohibit connection of any additional living unit to the shared well system without:
  - The consent of all parties
  - The appropriate amendment of the agreement; and
  - Compliance with bullet #3 above
- Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for proposed construction) of the shared well
- Establish easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection and testing
- Specify that no party may install landscaping or improvements that will impair the use of the easements
- Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties
- Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand
- Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved property
- Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement or improvement
- Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance
- Specify required cost sharing for:
  - The energy supply for the well pump;
  - System maintenance, including repairs, testing, inspection and disinfection;
  - System component replacement due to wear, obsolescence, incrustation or corrosion; and
  - System improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection
- Specify that no party shall be responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared

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- Require that each party be responsible for:
  - Prompt repair of any detected leak in this water service line or plumbing system;
  - Repair costs to correct system damage caused by a resident or guest at their property; and
  - Necessary repair or replacement of the service line connecting the system to the dwelling
- Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a property sharing the well
- Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided
- Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs
- Specify that the recorded agreement may not be amended during the term of a federally-insured or –guaranteed mortgage on any property served, except as provided in bullets 5 and 11 above
- Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

The appraiser must obtain a copy of the Shared Well Agreement and include it in the appraisal report so that MiMutual may review the agreement to determine eligibility. The appraiser must also require an inspection under the same circumstances as an [individual well](#).

### ***Community Well***

If the property is serviced by a community well system, FHA requires documentation such as the articles of incorporation or bylaws and/or Community Well agreement that will support the following:

- Service will be continuous and cannot be stopped and/or interrupted.
- The rate of the service and that it is reasonable
- Identify the property/borrowers have ownership rights
- The maintenance and expense of the well is properly managed
- That the well has been tested within the last year and meets local or state authority water quality requirements (the most recent test must be provided)

The Community Well agreement must be fully executed (and either recorded or in recordable form) and provided in the loan submission package at time of underwriting.

The appraiser must note the name of the water company on the appraisal report.

### ***Public Connection***

If the property has a well, and there is public water available to the property, a public connection is required unless the cost is considered prohibitive. If the connection costs will exceed 3% of the estimated value of the property, then connection to the public system is not required, providing the existing onsite systems are functioning properly and meet the requirements of the local health department.

The appraiser must report on the availability of connection to public and/or community water system, and any jurisdictional conditions requiring connection..

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**Water Testing**

If water testing is required, certification must be provided by one of the following:

- Health Authority Approval from the local municipality
- A licensed Water Lab

The water must meet the requirements of the Environmental Protection Agency (EPA) and the maximum contaminant levels established by the EPA will apply. The water must be checked for the following contaminants:

- Lead (first draw)
- Nitrate (as Nitrogen)
- Nitrite (as Nitrogen)
- Total Nitrate/Nitrite
- Total Coliforms
- Fecal Coliforms or E Coli

**Water Purification Systems**

Properties with Water Purification Systems are not eligible for financing.

- An individual water purification system is a system that is needed to make the water safe and meet code when the individual water supply is unsafe for human consumption unless the system is operating properly. This is not a system that is installed to improve the taste or softness of the water.
- Properties with individual water purification systems can be identified by reviewing the appraisal.

**Sewage System****Individual Sewage System (Septic)**

A Sewage System / Septic test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If the appraiser suspects a problem with the system and requires a test;
- Problems are common in the area;
- If there is knowledge there is a problem with the system; or
- If there are readily observable signs of system failure

An inspection may also be required in cases where the property has been vacant.

If inspection is required, certification must be provided by one of the following:

- Health authority approval from the local municipality;
- A licensed sanitarian

**Public Connection**

If the property has a septic system, and there is public sewer available to the property, a public connection is required unless the cost is considered prohibitive. If the connection costs will exceed 3% of the estimated value of the property, then connection to the public system is not required. The appraiser must report on the availability of connection to public and/or community sewer system, and any jurisdictional conditions requiring connection.



## *Building on Own Land*

Building on Own Land refers to a product of the 203(b) program used to finance the construction of a dwelling on land already owned by the borrower for greater than 6 months.

### **Borrower Eligibility**

The borrower must have contracted with a builder to construct the improvements. The builder must be a licensed General Contractor (GC). The borrower may act as the general contractor, only if the borrower is also a licensed GC.

### **Maximum Mortgage Amount**

The lesser of the property value of the documented acquisition cost must be used to determine the Adjusted Value.

The documented acquisition cost of the property includes:

- Builder's price or the sum of all subcontractor bids and materials;
- Value of the land as shown in the site value of the appraisal; and
- Interest and other costs associated with a construction loan obtained by the borrower to fund construction

### **Minimum Required Investment**

The mortgage is calculated using the purchase Loan to Value (LTV) limits. The Settlement Statement or similar legal document may be prepared as a refinance transaction. Any borrower required funds to close must be documented to have been from an acceptable source of funds.

If the land was given as a gift to the borrower, it must be documented that the donor was not a prohibited source. Standard gift documentation must be obtained for any gift of land.

### **Borrower's Additional Equity in the Property**

The borrower may not receive cash back from the additional equity in the property, but the borrower may replenish their own cash expenditures for any borrower-paid extras over and above the contract specifications and any out of pocket expenses not included in the builder's price. An itemization of the extras and expenses and the cost of each item must be obtained.

### **Required Documentation**

General New Construction requirements must be complied with. The date of the purchase of the land must be documented by obtaining the Settlement Statement or similar legal document.

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### *Three and Four Unit Properties*

For all three and four unit properties:

- The borrower must have personal reserves equivalent to three months PITI+MI after closing on a purchase transaction. Reserves cannot be derived from a gift.
- The maximum mortgage amount for three and four unit properties is limited, so that the ratio of the monthly mortgage payment, divided by the monthly net rental income, does not exceed 100%. See [Self-Sufficiency Rental Income](#) for calculation method.

### *Existing Construction Less than One Year Requirements*

On existing construction one year old or less (100% complete but never occupied), *excluding manufactured homes and condominiums*, the Building Permit **and** Certificate of Occupancy are required.

**NOTE:** *FHA treats the sale of an occupied property that has been completed less than one year from the issuance of the CO or equivalent as an existing property.*

### **Documentation Requirements for Maximum Financing**

- Builder’s Certification of Plans, Specifications and Site (HUD-92541);
- Warranty of Completion of Construction (HUD-92544) ;
- Required inspections;
- Wood Infestation Report, if located in a [Termite Infestation Probability \(TIP\) Zone](#) other than “None to Slight”:
  - Form HUD-NPMA-99-A, *Subterranean Termite Protection Builder’s Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The builder notes on the form must confirm that the construction is masonry, steel, or concrete.
  - Form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record*, is required when the proposed property is treated with a soil chemical termiticide. MiMutual must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis or septic report (where required by the local jurisdictional authority)

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### **Financing LTV Limit**

Properties that are Existing for Less than One Year are limited to a 90% LTV unless they are covered with a HUD-accepted insured ten-year protection plan, and they meet the required documentation as set forth above.

For a mortgage with an LTV of 90% or less, the following must be obtained:

- Builder's Certification of Plans, Specifications and Site (HUD-92541);
- Final inspection or appraisal, if property is 100% complete;
- Wood Infestation Report, if located in a [TIP Zone](#) other than "None to Slight";
  - Form HUD-NPMA-99-A, *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The builder notes on the form must confirm that the construction is masonry, steel, or concrete.
  - Form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record*, is required when the proposed property is treated with a soil chemical termiticide. MiMutual must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis or septic report (where required by the local jurisdictional authority)

### **Docs to Be Provided to Appraiser Upon Order**

The appraiser must be provided with a fully executed form HUD-92541, signed and dated no more than 30 days prior to the date the appraisal was ordered.

For properties greater than 90 percent but less than 100 percent completed, the appraiser must be provided with a list of components to be installed or completed after the date of inspection.

### **Property Considerations**

All existing construction less than one year must meet HUD Minimum Property Requirements (MPR) and Minimum Property Standards (MPS). For detailed requirements regarding property condition of existing construction less than 1 year, see the [4000.1](#).

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## Condominiums

*If the word “condo” appears in the legal description, the property will be deemed a condominium. Under the Housing & Economic Recovery Act of 2008, the insuring of condominium unit loans is now governed by Section 203(b) of the National Housing Act. They should no longer be processed under Section 234(c).*

A condominium project must be FHA-approved before a mortgage on an individual condominium unit can be insured. MiMutual only permits the **HUD Review and Approval Process (HRAP)**. MiMutual has not implemented the Direct Endorsement Lender Review and Approval Process (DELRAP). **It is the broker’s responsibility** to submit the project review package to the HUD Homeownership Center (Attention Technical Support Branch) that serves the state where the subject property is located.

Link to Search for approved Condominiums:

<https://entp.hud.gov/idapp/html/condlook.cfm>

Link to identify the HUD Homeownership Center (HOC) that serves the state where the subject property is located:

<http://www.hud.gov/offices/hsg/sfh/hoc/hsghoc.cfm>

### *FHA HOA Questionnaire*

An HOA Questionnaire must be completed and delivered to underwriting. While the use of the form located on MiMutual’s website is not mandatory, any other form used must contain the same information.

### *Insurance Requirements*

#### **Hazard/Liability Insurance (Project Approval)**

The homeowners’ association 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;
- Maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owners’ association, and public ways of the condominium.

If the HOA does not maintain 100% coverage, the unit owner may not obtain “gap” coverage to meet this requirement.

#### **HO-6 (Loan Level)**

The unit owner is required to obtain a “walls-in” coverage policy (HO-6 or its equivalent) if the master or blanket policy does not include interior unit coverage. The “walls-in” coverage must be sufficient, as determined by the insurer, to repair the interior of the condominium unit, including any additions, improvements and betterments to repair the unit to its original condition prior to the claim event.

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**Fidelity Bond / Fidelity Insurance (Project Approval)**

Fidelity Bond Insurance may also be known as “Employee Dishonesty” or “Crime Policy”. For all new and established projects with more than 20 units, the **homeowners association** is required to obtain and maintain this insurance;

- The homeowners association 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 unless State law mandates a maximum dollar amount of required coverage.

If the homeowners association engages the services of a management company, the homeowners association must require the **management company** to maintain Fidelity Bond/Fidelity Insurance coverage for its officers, employees and agents handling or responsible for funds of, or administered on behalf of, the owners association. The required coverage must meet the following requirements:

- The homeowner’s association’s Fidelity Bond/Fidelity Insurance policy specifically names the management company as an agent or insured;
- OR**
- The homeowner’s association’s Fidelity Bond/Fidelity Insurance policy includes a “Covered Employee” endorsement that states the person employed by the management company performing the services directed and controlled by the homeowner’s association is covered under the homeowner’s association’s policy.

In no event may the aggregate amount of such bonds be less than a sum equal to 3 months aggregate assessments on all units plus reserve funds unless State law requires a maximum amount of required coverage.

**Flood (Project and Loan Level)**

The homeowners’ association is required to obtain and maintain:

- 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;
- The maximum limit of building insurance coverage of a residential condominium building in a regular program community is \$250,000 times the number of units in the building (not to exceed the building’s replacement cost);
- The homeowners association, not the borrower or the 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); and
- 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;

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## Eligible Projects

- All common areas and recreational facilities must be completed. The Final Certificate of Occupancy for the final unit and/or subject unit may be required.
- Additional phasing and/or add-ons are not permitted.
- Control of the Homeowners Association must have transferred from the developer to the unit owners.
- Projects must consist of at least 2 units.
- All units must be sold and closed (100% complete)
- Project must be at least 50% owner-occupied
  - Projects may be eligible for approval between 35% and 50% owner occupancy under the following circumstances and subject to the following conditions:
    - Applications must be submitted for processing and review under the HRAP option (MiMutual does not allow DELRAP); and
    - Financial documents (see Section 2.1.6 of the [Guide](#)) must provide for funding of replacement reserves for capital expenditure and deferred maintenance in an account representing at least 20% of the budget; and
    - No more than 10% of the total units can be in arrears (more than 60 days past due) on their condominium association fee payments (as defined in Section 2.1.5 of the [Guide](#)); and
    - Three years of acceptable financial documents (see Section 2.1.6 of the [Guide](#)) must be provided

**NOTE:** *Owner occupancy of < 50% is only eligible for condo project approval applications, recertification applications, annexation applications, or reconsideration applications submitted to HUD for review. It does not apply to projects that are already FHA-approved but have not been re-reviewed for eligibility in meeting the requirements of ML 2016-15.*

- No more than 10% of units may be owned by one investor. This also applies to developers/builders that subsequently rent vacant and unsold units. For projects with 10 units or less, no single entity may own more than one unit.
- No greater than 15% of the total units can be more than 60 days past due on their association dues
- If the project has any special assessments pending, their impact on the units and marketability must be analyzed. Any increase in dues must be included in the qualifying ratios. Typically, a newer project will have pending assessments.
- If the HOA is involved in any pending litigation, the complex is generally not eligible for financing. Exceptions may be made, however, providing the litigation does not negatively impact the project or the rights of the unit owners.
- If the project contains any adverse environmental factors that affect the project as a whole **or** the individual units, the appraiser must address their impact on value and marketability. A determination will be made by underwriting based on their findings.
- MiMutual must review the budget to determine that it is adequate to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the project, to provide for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget, and to provide adequate funding for insurance coverage and deductibles

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- The legal documents of the project may not include any restrictions on sale which would limit the free transferability of title (for example, deed/income restrictions).  
**NOTE:** *Right of First Refusal is permitted unless it violates discriminatory conduct under the Fair Housing Act regulation at 24 CFR part 100.*
- The subject unit must be part of a legally established condominium project, in which common areas are owned jointly by unit owners.
- The units in the project must be held in fee simple title.
- The amenities / recreational facilities must be owned by the HOA
- The property may not operate as a resort or hotel, renting units on a daily/weekly basis. It may not offer services such as housekeeping, restaurant/food service, time shares, mandatory rental pool, or commercial space in excess of 25% of the property's total floor area in the project.

**NOTE:** *Owner occupied units are defined as principal residences, secondary residences, or units that have been sold to purchasers who intend to occupy them as a primary or secondary residence. A principal residence refers to a dwelling where the owner maintains or will maintain their permanent place of abode, and which the owner typically occupies or will occupy for the majority of the calendar year. A secondary residence refers to a dwelling that an owner occupies in addition to their principal residence, but less than a majority of the calendar year. A secondary residence does not include a vacation home.*

## Site Condominiums

A detached condo is not necessarily a site condo. Site condominiums are defined as:

- Single family totally detached dwellings (no shared garages or any other attached buildings such as archways or breezeways), **and**
- Are encumbered by a declaration of condominium covenants or condominium form of ownership, **and**
- The condominium unit consists of the entire structure as well as the site and air space, and are not considered to be common areas or limited common areas, **and**
- Insurance and maintenance costs are totally the responsibility of the unit owner, **and**
- Any common assessments collected will be for amenities outside of the footprint of the individual site.

While project approval is not required for site condominiums, a condo that does not meet the definition of site condo above (including detached condominiums) **will** require full project approval. The Individual Condominium Unit Appraisal Report (Form 1073) is required, and the Condominium Rider to the Mortgage/Deed of Trust (prepared by MiMutual) must be fully executed at closing. The Uniform Residential Appraisal Report (Form 1004) is no longer permitted. Site Condominium comparable sales should be used in completing the appraisal report. If the appraiser uses comparable sales other than site condos they must provide an explanation in the appraisal report.

**NOTE:** *The case number assignment must reflect the property as a condo (select site condo in the drop down – a condo ID is not needed/required). The case number suffix must be 734 for a condo, 731 if an ARM condominium or 804 if a subject is a site condo using a 203(k) loan.*

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## *Condominium Requirements*

- To determine if a condominium project is FHA approved, refer to the following website: <https://entp.hud.gov/idapp/html/condlook.cfm>
- FHA Case Numbers may not be obtained until a condominium project is approved.
- If complex has been denied or withdrawn, the project is not eligible until the project is approved by HUD.

## *Condominium Conversions*

Loan approval for a condominium unit within a converted project is permitted provided the project is 100% complete and appears in FHA Connection on the condominium approval list.

The underwriter is still responsible for:

- Completion the re-certification form to verify the condominium still meets FHA guidelines.
- Reviewing title to ensure the underlying “blanket mortgage” is paid in full.
- All share interests have been converted to deeds.

## *HUD Condominium Certifications/Questionnaire*

MiMutual’s **FHA Condominium Homeowner’s Association Questionnaire** (available on our website) is required to be provided to underwriting. Per HUD it is the lender’s responsibility to certify (on Attachment C) that the unit in connection with the loan file has been verified to be in a project that to the best of their knowledge continues to meet all FHA condominium requirements. These forms will be required at time of initial loan submission. Please make sure the Questionnaire you submit is accurate and properly completed in its entirety, and fully executed by an authorized agent of the HOA. Any requests to provide updated and/or revised questionnaires will be denied.

## *FHA Concentration*

FHA will display the concentration information for each approved condominium development on the approved condominium listing, which can be found on both FHA Connection and on the public website at [www.hud.gov](http://www.hud.gov). The concentration level will be based on case numbers assigned on units in a project; **FHA will not issue new case numbers once the 50 percent concentration level (plus a small tolerance to accommodate for some fall-out) has been reached in any particular development.**

## *When Condo Project Approval is Not Required*

- Streamline refinance transactions without an appraisal
- HUD REO transactions

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## Credit

*Adverse credit seasoning (bankruptcy, foreclosure, housing lates, etc) is calculated from the date of the occurrence to the case number assignment date.*

### Documentation Requirements

All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

#### **Verification of Institutional Mortgage History**

A current payoff is required on all refinance transactions and one of the following:

- Verification of Mortgage dated within thirty days of closing.
- Mortgage history reflecting current on the credit bureau. This applies to subject property and any other properties owned. If mortgage is included as part of a bankruptcy or is otherwise not reported accurately on credit report, a payment history/ledger will be required.
- 12 months canceled checks (front and back) or 12 consecutive months' bank statements showing payments.

#### **Verification of Rental Payment History**

If verification of rental payment history is required, one of the following options may be used:

- Verification of Rent (VOR),
- 12 months canceled checks (front and back), or
- 12 consecutive months bank statements showing payments

#### **Land Contract/Contract for Deed**

- Copy of Land Contract (recorded or unrecorded)
- Last 12 (or from inception of the contract) consecutive months canceled checks (front and back), or bank statements showing payments.

**NOTE:** All *unrecorded* land contract transactions must be treated as purchases.

#### **Lease with Option to Purchase**

- Copy of Lease w/Option Agreement
- Last 12 consecutive months canceled checks (front and back), or bank statements showing payments

**NOTE:** All lease options are treated as purchase transactions. The cumulative amount of rental payments that exceeds the appraiser's estimate of fair market rent (as evidenced by a comparable rent schedule provided with the FHA appraisal) can be used toward the MRI.

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## *Credit Reports*

A Tri-Merged Credit Report (TRMCR) from an independent consumer reporting agency must be obtained. If any inconsistencies between any information in the mortgage file and the original credit report are identified by the underwriter, a new credit report must be obtained and rescored through TOTAL.

Additionally, all credit reports since the date of application must be provided to the MiMutual underwriter for review. If a credit report (or multiple reports) exist that were pulled before the credit report being used to decision the file, the underwriter will condition for a copy of each report and analyze the data as a part of the borrower's credit review.

## *Minimum Decision Credit Score (MDCS)*

The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the borrower's credit report when all reported scores are the same. Where three differing scores are reported, the middle score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that score is the MDCS.

An MDCS is determined for each borrower. Where the mortgage involves multiple borrowers, MiMutual will determine the MDCS for each borrower, and then select the lowest MDCS for all borrowers.

MiMutual requires a MDCS of 580 (unless otherwise specified by product type). For all loans with MDCSs less than 640, manual underwriting is not permitted.

## *Valid Credit Score*

Validating credit scores is required on manually underwritten loans. It typically requires 2-4 tradelines to validate a credit score depending on depth of credit, the type of tradeline, and length of time established. If you are in doubt, email our scenario help desk ([wholesalescenarios@mimutual.com](mailto:wholesalescenarios@mimutual.com)), submit your scenario through our website, or contact your Account Executive. Submission of a full credit package including all income and asset information for underwriter review may be required.

## *Evaluating Credit History*

### **Collection Accounts, Charge Off Accounts, Accounts with Late Payments in the Previous 24 Months, and Judgments**

Collections and judgments may indicate a borrower's disregard for credit obligations and *must* be considered in the creditworthiness analysis. Medical collections are excluded from this guidance.

There are no documentation or letter of explanation requirements for loans with these types of accounts run through TOTAL Mortgage Scorecard receiving an "Accept/Approve" despite the presence of collection accounts or judgments. These accounts have been already taken into consideration in the borrower's credit score. If TOTAL Mortgage Scorecard generates a "Refer," the loan must be manually underwritten in accordance with the guidance above applicable to manually underwritten loans with collection accounts and judgments.

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***Handling of Collection Accounts***

A collection account is a loan or debt that has been submitted to a collection agency by a creditor.

If the credit report(s) used in the TOTAL analysis show cumulative outstanding collection account balances of \$2,000 or greater, MiMutual must:

- Verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds;
- Verify that the borrower has made payment arrangements with the creditor and include the monthly payment in the borrower's DTI; or
- If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include the monthly payment in the borrower's DTI.

Collection accounts of a non-borrowing spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as a part of the borrower's ability to pay all collection accounts, unless excluded by state law.

The following documentation must be provided:

- Evidence of payment in full, if paid prior to settlement;
- The payoff statement, if paid at settlement; or
- The payment arrangement with the creditor, if not paid prior to or at settlement.

If MiMutual uses 5% of the outstanding balance, no documentation is required.

**Disputed Accounts**

The existence of potentially inaccurate information on a borrower's credit report resulting in a dispute must be reviewed by an underwriter. Accounts that appear as disputed on the borrower's credit report are not considered in the credit score utilized by TOTAL Mortgage Scorecard in rating the application. Therefore, MiMutual will consider them in the underwriting analysis as described below.

***Disputed Derogatory Accounts Indicated on the Credit Report***

Disputed derogatory credit accounts refer to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

Exclusions from cumulative balances include:

- Disputed medical accounts; and
- Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, MiMutual must include a copy of the police report or other documentation from the creditor to support the status of the accounts

If the credit report utilized by TOTAL Mortgage Scorecard indicates that the borrower has \$1,000 or more collectively in disputed derogatory credit accounts, the mortgage must be downgraded to a Refer and manually underwritten.

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

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

***Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report***

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

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

If a borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, MiMutual will not downgrade the application to a “Refer.” However, we will analyze the effect of the disputed accounts on the borrower’s ability to repay the loan. If the dispute results in the borrower’s monthly debt payments utilized in computing the debt-to-income ratio being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payments.

**Judgments**

FHA requires judgments to be paid off before the mortgage loan is eligible for FHA insurance. An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments, and the judgment will not supersede the FHA-insured mortgage lien. The borrower must provide a copy of the agreement and evidence that payments were made on time in accordance with the agreement, **and** a minimum of three months of scheduled payments have been made prior to credit approval.

Borrowers are not allowed to prepay scheduled payments in order to meet the required minimum of three months of payments. Furthermore, MiMutual will include the payment amount as stated in the agreement in the calculation of the borrower’s debt-to-income ratio.

FHA requires judgments of a non-purchasing spouse in a community property state to be paid in full, or meet the exception guidance for judgments above, unless excluded by state law.

The following documentation must be obtained:

- Evidence of payment in full, if paid prior to settlement;
- The payoff statement, if paid at settlement; or
- The payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title

**Inaccuracy in Debt Considered**

When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS, MiMutual must:

- Verify the actual monthly payment amount;
- Resubmit the mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the borrower’s debt increases by more than \$100 per month; and
- Determine that the additional debt was not/will not be used for the borrower’s Minimum Required Investment (MRI)

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## **Bankruptcy**

MiMutual must document the passage of two years since the discharge date of any bankruptcy. If the bankruptcy was discharged within two years from the date of case number assignment, the mortgage must be downgraded to a Refer and manually underwritten.

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, MiMutual must obtain the bankruptcy and discharge documents.

**NOTE:** *A borrower currently in the repayment period of a Chapter 13 bankruptcy may still be eligible for financing. Refer to the 4000.1, Manual Underwriting section for details.*

## **Pre-Foreclosure Sale (Short Sale)**

Pre-foreclosure sales (short sales) refer to the sales of real estate that generate proceeds that are less than the amount owed on the property and the lien holder(s) agree to release their liens and forgive the deficiency balance on the real estate.

MiMutual must document the passage of three years since the date of the short sale. If the short sale occurred within three years from the date of case number assignment, the mortgage must be downgraded to a Refer and manually underwritten. This three year period begins on the date of transfer of title by short sale.

If the credit report does not verify the date of the transfer of title by short sale, the short sale documents must be obtained.

## **Foreclosure/Deed-in-Lieu (DIL) of Foreclosure**

MiMutual must manually downgrade to a Refer if the borrower had a foreclosure or DIL of foreclosure in which title transferred from the borrower within 3 years of the case number assignment date.

If the credit report does not verify the date of the transfer of title through the foreclosure or by the DIL of foreclosure, a copy of the foreclosure/DIL documents must be obtained.

## **Consumer Credit Counseling**

With an AUS-approved file, participating in a consumer credit counseling program does not require a downgrade to manual underwriting. No explanation or other documentation is needed.

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## **Housing Payment History**

### ***Purchases***

0x60 on housing payment history (all residences collectively) is permitted in the last 12 months.

**NOTE:** Any delinquency greater than 2x30 must be manually downgraded.

### ***No Cash Out (Rate/Term) Refinances***

0x60 on housing payment history (all residences collectively) is permitted in the last 12 months.

**NOTE:** Loans requiring manual downgrades have more restrictive housing history requirements. Please refer to the [4000.1](#) for detailed direction.

### ***Cash Out Refinances and Refer Recommendations***

A 0x30 housing payment history on all residences in the last 12 months is required (if applicable).

**NOTE:** Timeshares are considered as consumer debt, and not real estate. Therefore, any adverse credit on a timeshare should not be considered when analyzing mortgage delinquency/foreclosure.

## ***Hardship Modifications***

### **Purchases**

On a purchase transaction, a previous hardship modification does not render a borrower ineligible for financing

### **Refinances**

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

## ***Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt***

MiMutual is prohibited from processing an application for an FHA-insured mortgage for borrowers with delinquent federal non-tax debt, including deficiency judgments and other debt associated with past FHA-insured mortgages. It must be determined whether the borrowers have delinquent federal non-tax debt. Information on delinquent Federal Debts may be obtained from public records, credit reports or equivalent, and all borrowers must be checked against CAIVRS.

If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an equivalent system, the validity and delinquency status of the debt must be verified by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the creditor agency must be contacted using the contact phone number and debt reference number reflected in the borrower's CAIVRS report.

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If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act (DCIA), then the borrower is ineligible for an FHA-insured mortgage until the borrower resolves the debt with the creditor agency.

MiMutual may not deny a mortgage solely on the basis of CAIVRS information that has not been verified. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, MiMutual may continue to process the mortgage application.

In order for a borrower with verified delinquent Federal Debt to become eligible, the borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

MiMutual must obtain documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, evidence of resolution may be obtained by obtaining a clear CAIVRS report.

### *Delinquent Federal Tax Debt*

Borrowers with delinquent Federal Tax Debt are ineligible.

Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the borrower has made timely payments for at least three months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The payment amount must be included in the calculation of the borrower's DTI. Documentation from the IRS evidencing the repayment agreement and verification of payments made must be obtained. The lien holder must subordinate the tax lien to the FHA-insured mortgage.

### *Consumer Credit Counseling*

- Acceptable on Approve/Eligible AUS findings with no additional documentation required.
- Loans that receive a Refer/Eligible (manual underwrites) will require a minimum 12 month payment history from the CCC Agency showing 0x30. In addition, a letter of authorization from the CCC Agency is required, allowing borrower to obtain new mortgage financing. CCC plan payment must be included in DTI calculation.

### *Borrowers/Co-Borrowers*

A party who has a financial interest in the mortgage transaction, such as the seller, builder, or real estate agent, may not be a coborrower or a cosigner (exceptions may be granted when the party with the financial interest is a family member).

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## **Occupying**

MiMutual requires a minimum 580 middle credit score for all borrowers. For all loans with MDCSs < 640, manual underwrites are not permitted.

## **Non-Occupying Co-Borrowers**

Acceptable per FHA guidelines. However, non-occupant coborrowers are not allowed on the purchase of a HUD REO property, on cash-out refinance transactions, or on mortgages for 2- to 4-unit properties if the LTV exceeds 75%). See [Non-Occupying Co-Borrower](#) section of the guidelines for further information.

## *Credit Inquiries*

MiMutual must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios. We must also determine that any recent debts were not incurred to obtain any part of the borrower's required funds to close on the property being purchased.

Material Inquiries refer to inquiries which may potentially result in obligations incurred by the mortgage borrowers for other mortgages, auto loans, leases, or other installment loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

## *Authorized User Accounts*

Accounts for which the borrower is an authorized user must be included in the borrower's DTI unless it can be documented that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the borrower's DTI.

## *Business Debt in Borrower's Name*

Business Debt in Borrower's Name refers to liabilities reported on the borrower's personal credit report, but payment for the debt is attributed to the borrower's business.

When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI calculation, unless it can be documented that the debt is being paid by the borrower's business, and the debt was considered in the cash-flow analysis of the borrower's business. The debt is considered in the cash flow analysis where the borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

When a self-employed borrower states debt appearing on their personal credit report is being paid by their business, documentation must be obtained that the debt is paid out of company funds and that the debt was considered in the cash-flow analysis of the borrower's business.

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## *Installment Debt*

If the credit report does not include a monthly payment for the installment loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, MiMutual must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

Installment accounts (excluding leases) with less than 10 payments remaining on the balance may be excluded from the debt-to-income ratio (DTI) if the cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10 month requirement.

**NOTE:** *Lease accounts are always included in debt ratio, regardless of number of months remaining on the lease agreement.*

## *Deferred Obligations*

Deferred obligations (excluding student loans) refer to liabilities that have been incurred but where payment is deferred or has not commenced, including accounts in forbearance. **MiMutual must include all deferred obligations in the borrower's liabilities.**

Written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability must be obtained. Additionally, evidence of the anticipated monthly payment obligation must be obtained, if available.

Whenever available, MiMutual must use the actual monthly payment to be paid on a deferred liability. If the actual monthly payment is not available for installment debt, MiMutual must utilize the terms of the debt or 5% of the outstanding balance to establish the monthly payment.

## *Student Loans*

MiMutual must include all student loans in the borrower's liabilities, regardless of the payment type or status of payments.

If the payment used for the monthly obligation is:

- less than 1 percent of the outstanding balance reported on the borrower's credit report, and
- less than the monthly payment reported on the borrower's credit report;

then written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms must be obtained from the creditor.

Regarding the payment status, MiMutual must use either:

- the greater of:
  - 1 percent of the outstanding balance on the loan; or
  - the monthly payment reported on the borrower's credit report; **or**
- the actual documented payment, provided the payment will fully amortize the loan over its term.

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### *Revolving Charge Accounts*

Revolving charge accounts refer to a credit arrangement that requires the borrower to make periodic payments but does not require full repayment by a specified point in time.

MiMutual must include the monthly payment shown on the credit report for the revolving charge account. Where the credit report does not include a monthly payment for the account, MiMutual must use the payment shown on the current account statement or 5% of the outstanding balance.

The credit report should be used to document the terms, balance, and payment amount on the account, if available. Where the credit report does not reflect the necessary information on the charge account, MiMutual must obtain a copy of the most recent charge account statement or use 5% of the outstanding balance to document the monthly payment.

### *Open 30-Day Charge Accounts*

A 30-day account refers to a credit arrangement that requires the borrower to pay the outstanding balance on the account every month.

MiMutual must use the credit report to verify the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly are not included in the borrower's DTI. If the credit report reflects any late payments in the last 12 months, MiMutual must utilize 5% of the outstanding balance as the borrower's monthly debt to be included in the DTI.

The credit report must always be used to document the balance, and MiMutual must document sufficient funds are available to pay off the balance and close the loan.

### *Contingent Liability*

A Contingent Liability refers to a liability that may result in the obligation to repay only when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

MiMutual must include monthly payments on contingent liabilities in the calculation of the borrower's monthly obligations unless it is verified and documented that there is no possibility the debt holder will pursue debt collection against the borrower should the other party default, or the other legally obligated party has made 12 months of timely payments.

The payment must be calculated on the contingent liability based on the terms of the agreement creating the contingent liability.

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### **Mortgage Assumptions**

MiMutual must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the borrower's name.

### **Cosigned Liabilities**

If the cosigned liability is not included in the monthly obligation, MiMutual must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

### **Court-Ordered Divorce**

MiMutual must obtain a copy of the divorce decree ordering the spouse to make payments.

## *Debts Paid Prior to Closing*

It must be documented that any funds used to pay off debts prior to closing came from an acceptable source, and the borrower did not incur new debts that were not included in the DTI.

## *Federal Debt*

Federal debt refers to debt owed to the federal government for which regular payments are being made. The amount of the required payment must be included in the calculation of the borrower's total debt to income ratio, and documentation must be obtained from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

## *Undisclosed Debt*

### **Undisclosed Debt Other Than a Mortgage**

When a debt or obligation (other than a mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, MiMutual must:

- verify the actual monthly payment amount;
- re-submit the mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; and
- determine that any funds borrowed were not/will not be used for the Borrower's MRI.

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### **Undisclosed Mortgage Debt**

When an existing debt or obligation that is secured by a mortgage but is not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, a Verification of Mortgage must be obtained directly from the servicer.

The mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:

- a current delinquency;
- any delinquency within 12 months of the case number assignment date; or
- more than two 30-day late payments within 24 months of the case number assignment date

A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late mortgage payments.

### *Alimony, Child Support, or Other Maintenance*

For alimony, if the borrower's income was not reduced by the amount of the monthly alimony obligation in the calculation of the borrower's gross income, then the monthly obligation must be included in the calculation of the borrower's debt. Child support and other maintenance are to be treated as a recurring liability and MiMutual must include the monthly obligation in the borrower's liabilities and debt.

The monthly obligation must be verified and documented by the official signed divorce decree, separation agreement, maintenance agreement, or other legal order. The borrower's paystubs covering no less than **28 consecutive days** must also be obtained to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

MiMutual will calculate the borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the borrower's payment obligation; or
- the monthly amount of the garnishment.

### *Obligations Not Considered Debt*

Obligations *not* to be considered debt (or subtracted from the borrower's gross income) for qualifying purposes include:

- medical collections
- federal, state and local income taxes, if not delinquent and no payments are required
- Automatic deductions from savings, when not associated with another type of obligation
- FICA or other retirement contributions such as 401k contributions (including 401k loans)
- Collateralized loans secured by depository accounts
- Utilities
- Child care
- Commuting costs
- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

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## *Payment Plans*

MiMutual will accept payment plans (in lieu of payoff) for judgments, tax liens, etc if the payment arrangement has been established for at least 3 months. Borrower must provide monthly repayment plan, acceptable 3 month payment history reflecting payments made according to plan with no history of late payments (0x30), and monthly payment must be included as a liability in qualifying ratios.

See [Delinquent Federal Tax Debt](#) for further information on federal tax liens.

## *Subordinating a Lien*

If a lien is being subordinated, MiMutual will require the following:

- Copy of the Existing Note or HELOC Agreement with terms of financing
- A fully executed subordination agreement prior to closing, reflecting accurate terms of loan
- If the credit line is being reduced with a borrower pay down, a fully executed Modification agreement is to be provided (only in cases where the line has to be paid down to meet HCLTV/CLTV requirements)
- Tax liens may be subordinated, provided there is an acceptable payment plan in place for a minimum of 3 months and all payments have been paid as agreed.

CLTV cannot exceed 97.75% on Rate/Term refinances (unlimited on Streamline transactions). Maximum CLTV on cash out refinance transactions is 85%.

## *MiMutual In-file Credit Reports*

MiMutual will pull a single-bureau, in-file credit report 10 days prior to closing when the credit report used to underwrite the loan exceeds 60 days at closing. Any changes in payments or balances will require the liabilities to be updated, and the AUS must be rerun with the most current information available – loan must still receive an acceptable decision. If any derogatory credit is found since the date of the tri-merge credit used to underwrite the loan, a **new** tri-merge credit report must be pulled and attached to the AUS findings so the delinquency can be factored into DU's decision.

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## *Extenuating Circumstances*

Extenuating circumstances are circumstances which are typically unanticipated, and beyond the borrower's control. Examples of extenuating circumstances include:

- Death of a primary wage earner
- Serious, long-term uninsured illness
- Unemployment or severe reductions in income due to the recent recession\*

Neither the inability to sell a property due to job transfer or relocation to another area, nor a divorce qualifies as an extenuating circumstance. However, if a borrower's loan was current at the time of a divorce in which the ex-spouse was awarded the marital property (and all liability), and the property was later foreclosed on, that delinquency/foreclosure will not be considered in the borrower's credit analysis.

If a borrower has experienced a documentable extenuating circumstance which resulted in a bankruptcy, foreclosure, short sale, or other negative impact on their credit, they may be eligible if:

- they can document reestablished good credit
- have demonstrated a documented ability to responsibly manage his/her financial affairs.
- documentation must be provided that the borrower's current situation indicates that the events that led to the adverse credit are not likely to recur.

Loans with Extenuating Circumstances must be manually underwritten. For detailed direction regarding underwriting a loan with Extenuating Circumstances, refer to the [4000.1](#).

**\*NOTE:** *This extenuating circumstance only applies when the criteria of the Back to Work policy are met. See the [4000.1](#) for detailed guidance.*

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## Employment/Income

*Generally borrowers must be employed for 2 years in the same line of work. MiMutual will use a college degree and/or transcripts to document previous history, if dated within 6 months of current employment start date. Large fluctuations in income are ALWAYS subject to underwriter discretion. **MiMutual will do a phone verification of employment on all loans within 10 days of the Note.***

*MiMutual will require IRS transcripts for the most recent two tax periods (W2s and 1040s), to validate all income used for qualifying. **All 4506T results must be obtained by MiMutual.***

### *Documentation Requirements*

All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

### *Effective Income*

Effective Income refers to income that may be used to qualify a borrower for a mortgage. Effective income must be reasonably likely to continue through at least the first three years of the mortgage, and meet the specific requirements described in this chapter.

### *Hourly or Salaried Employees*

The borrower's most recent two years of employment and income must be verified and documented with the most recent paystub and a written Verification of Employment (VOE) covering two years.

Alternative documentation may also be used. MiMutual must:

- Obtain copies of the most recent paystub that shows the borrower's Year-to-Date earnings;
- Obtain copies of the original IRS W2 forms from the previous two years; and
- Document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified. **This is not to be used as a substitute for the VVOE that must be done within 10 days of the Note.**

Direct verification of the borrower's employment history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two year employment history, or a paystub reflects a hire date;
- Only base pay is used to qualify (no overtime or bonus);
- The borrower executes IRS Form 4506-T, *Request for Transcript of Tax Return*, for the previous two tax years

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If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then one or a combination of the following must be obtained for the most recent two years to verify the applicant's employment history:

- W2(s)
- VOE(s)
- Electronic verification acceptable to FHA
- Evidence supporting enrollment in school or the military during the most recent two full years

### **Salary**

For borrowers who are salaried and whose income has been and will likely be consistently earned, MiMutual must use the current salary to calculate Effective Income.

### **Hourly**

For employees who are paid hourly, and whose hours do not vary, MiMutual must consider the borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, MiMutual must average the income over the previous two years. If MiMutual can document an increase in pay rate, the most recent 12 month average of hours at the current pay rate may be used.

## *Overtime and Bonus Income*

Overtime and bonus income refers to income that the borrower receives in addition to the borrower's normal salary. They can be used as Effective Income if the borrower has received this income for the past two years, and it is reasonably likely to continue.

Periods of overtime and bonus income received for less than two years may be considered Effective Income if it can be documented that the Overtime and Bonus income has been consistently earned over a period of not less than one year, and is reasonably likely to continue.

Overtime and Bonus income earned must be averaged over the previous two years to calculate the Effective Income. However, if the Effective Income from Overtime or Bonus earnings from the current year decreases by 20% or more from the previous year, MiMutual must use the current year's income.

## *Second Jobs/Part-Time Income*

Part time employment refers to employment that is not the borrower's primary employment and is generally performed for less than 40 hours per week.

Part time employment income may be used as effective income if the borrower has worked a part time job uninterrupted for the past two years and the current position is reasonably likely to continue. Income must be averaged over the previous two years. If MiMutual can document an increase in pay rate, the most recent 12 month average of hours at the current pay rate may be used.

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## *Seasonal Employment*

Seasonal employment refers to employment that is not year round, regardless of the number of hours per week the borrower works on the job. Seasonal Employment income may be considered as Effective Income if the borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. MiMutual may consider unemployment income as Effective Income for those with effective Seasonal Employment income.

For seasonal employees with unemployment income, MiMutual must document the unemployment income for two full years, and there must be reasonable assurance that this income will continue.

For employees with Seasonal Employment income, the income earned over the previous two full years must be averaged to calculate effective income.

## *Employed by Family-Owned Business*

Family-owned business income refers to employment income earned from a business owned by the borrower's family, but in which the borrower is not an owner. Family-Owned Business Income can be considered as Effective Income if the borrower is not an owner in the family business, which must be documented by using official business documents showing the ownership percentage. Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K1, or an official letter from a Certified Public Accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, MiMutual must obtain copies of signed personal tax returns or tax transcripts.

## *Union Employees*

Follow AUS findings for documentation requirements.

## *Commission Income*

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service. MiMutual may use Commission Income as Effective Income if the borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

For Commission Income less than or equal to 25 percent of the borrower's total earnings, MiMutual must use traditional or alternative employment documentation. For Commission Income greater than 25 percent of the Borrower's total earnings, MiMutual must obtain signed tax returns, including all applicable schedules, for the last two years.

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Effective Income for commission will be calculated by using the lesser of

- the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or
- the average net Commission Income earned over the previous one year.

MiMutual must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income, and must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A.

### *1099 Employees*

Follow AUS findings for documentation requirements.

### *Negative Income*

Negative income must be subtracted from the borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

### *Automobile Allowances*

Automobile Allowance refers to the funds provided by the borrower's employer for automobile related expenses. The Automobile Allowance received from the employer must be verified and documented for the previous two years. IRS Form 2106, *Employee Business Expenses*, must be obtained for the previous two years.

MiMutual must determine the portion of the allowance that can be considered Effective Income. Automobile expenses as shown on IRS Form 2106 must be subtracted from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.

If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:

- the Borrower's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

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## Self-Employed

Self-Employment Income refers to income generated by a business in which the borrower has a 25 percent or greater ownership interest. There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

MiMutual may consider Self-Employment Income if the borrower has been self-employed for at least two years. If the borrower has been self-employed between one and two years, the income may only be considered as Effective Income if the borrower was previously employed in the same line of work in which the borrower is self-employed or in a related occupation for at least two years.

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the loan must be downgraded and manually underwritten.

Complete individual federal income tax returns for the most recent two years, including all schedules, must be obtained. MiMutual must obtain the Borrower’s business tax returns for the most recent two years unless the following criteria are met:

- individual federal income tax returns show increasing Self-Employment Income over the past two years;
- funds to close are not coming from business accounts; and
- the mortgage to be insured is not a cash-out refinance.

Additionally, a year-to-date Profit and Loss (P&L) statement and balance sheet must be obtained if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

MiMutual will analyze the borrower’s tax returns to determine gross Self-Employment Income. Gross Self-Employment Income will be calculated by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

**NOTE:** *A Profit & Loss Statement will be used to support a two year income average; however, will not be used for qualifying purposes.*

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## *Additional Required Analysis of Stability of Employment Income*

### **Frequent Changes in Employment**

If the borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, MiMutual must take additional steps to verify and document the stability of the borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a borrower to work for various employers, such as temp companies or union trades. The following must be obtained:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

### **Gaps in Employment**

For borrowers with gaps in employment of six months or more (an extended absence), MiMutual may consider the borrower's current income as Effective Income if it can verify and document that:

- the borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

### **Temporary Reduction in Income**

For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, MiMutual may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the borrower intends to return to work;
- the borrower has the right to return to work; and
- the borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance.

For borrowers returning to work before or at the time of the first mortgage payment due date, MiMutual may use the borrower's pre-leave income. For borrowers returning to work after the first mortgage payment due date, the borrower's current income plus available surplus liquid asset reserves, above and beyond any required Reserves, may be used as an income supplement up to the amount of the borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus reserves divided by the number of months between the first payment due date and the borrower's intended date of return to work.

The following documentation must be obtained for borrowers on temporary leave:

- a written statement from the borrower confirming the borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with [Source of Funds](#), used to supplement the borrower's income through intended date of return to work with current employer.

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## *Alimony, Child Support, or Maintenance Income*

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the borrower's minor dependent.

A fully executed copy of the borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt must be obtained. When using a final divorce decree, legal separation agreement or court order, evidence of receipt must also be obtained using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying. The voluntary payment agreement must be documented with 12 months of cancelled checks, deposit slips, or tax returns.

Evidence that the claimed income will continue for at least three years must be obtained. When using a final divorce decree, legal separation agreement or court order, if the borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, MiMutual may use the current payment to calculate Effective Income. When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, MiMutual may use the current payment to calculate Effective Income.

If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, MiMutual must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, MiMutual must use the average over the time of receipt (minimum 1 year receipt required).

**NOTE:** *Child support may be grossed-up under the same provisions as nontaxable income sources.*

## *Social Security Income*

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

The borrower's receipt of income from the SSA, and that it is likely to continue for at least a three year period from the date of case number assignment, must be verified and documented. For SSI, any one of the following documents must be obtained:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's Form SSA-1099/1042S, *Social Security Benefit Statement*.

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In addition to verification of income, the continuance of this income must be documented by obtaining from the borrower

- a copy of the last Notice of Award letter which states the SSA's determination on the borrower's eligibility for SSA income; or
- an equivalent document that establishes award benefits to the borrower

If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying. If the Notice of Award or equivalent document does not have a defined expiration date, MiMutual must consider the income effective and reasonably likely to continue. MiMutual may not request additional documentation from the borrower to demonstrate continuance of Social Security Administration income. If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

MiMutual must use the current amount of Social Security Income received to calculate Effective Income.

**NOTE:** *Some portion of Social Security income may be grossed-up if deemed nontaxable by the IRS.*

### *Social Security Income Received for a Child*

SSI received for a child requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The child's Award Letter; **and**
- Birth certificate reflecting the child is  $\leq 14$  years old (if the child is 15 or older there is not a 3 year continuance of income)

### *Disability Benefits*

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

- The Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider must be verified and documented. One of the following must be obtained: a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the borrower's eligibility for disability benefits, or
- equivalent documentation that establishes the award of benefits to the borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, MiMutual may consider the income effective and reasonably likely to continue. MiMutual may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue and under no circumstance may MiMutual inquire into or request documentation concerning the nature of the disability or the medical condition of the borrower.

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**Social Security Disability**

For Social Security Disability income, including Supplemental Security Income (SSI), a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the borrower must be obtained, and one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- a copy of the Borrower’s [form SSA-1099/1042S](#), *Social Security Benefit Statement*.

**VA Disability**

A copy of the veteran’s last Benefits Letter must be obtained from the borrower, and at least one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, MiMutual may consider the income effective and reasonably likely to continue for at least 3 years.

**NOTE:** *The requirement to obtain VA Form 26-8937, Verification of VA Benefits, has been temporarily suspended by FHA*

**Private Disability**

For private disability benefits, MiMutual must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

For all sources of Disability Benefits, the most recent amount of benefits received must be used to calculate Effective Income.

**Pension**

Pension refers to income received from the Borrower’s former employer(s).

The borrower’s receipt of periodic payments from the borrower’s Pension, and that the payments are likely to continue for at least three years, must be verified and documented. Any one of the following documents must be obtained:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower’s Pension/retirement letter from the former employer.

MiMutual must use the current amount of Pension income received to calculate Effective Income.

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## *Individual Retirement Account (IRA) and 401(k)*

Individual Retirement Account (IRA)/401(k) Income refers to income received from an individual retirement account.

The borrower's receipt of recurring IRA/401(k) distribution Income, and that it is reasonably likely to continue for three years, must be verified and documented. The most recent IRA/401(k) statement and any one of the following documents must be obtained:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

For borrowers with IRA/401(k) Income that has been and will be consistently received, MiMutual must use the current amount of IRA Income received to calculate Effective Income. For borrowers with fluctuating IRA/401(k) Income, MiMutual must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, MiMutual must use the average over the time of receipt.

## *Military Income*

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing (BAH)
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence (BAS)
- proficiency pay

Military education benefits may not be used as Effective Income.

A copy of the borrower's military Leave and Earnings Statement (LES) must be obtained, and the Expiration Term of Service date on the LES must be verified. If the Expiration Term of Service date is within the first 12 months of the mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service. MiMutual must use the current amount of Military Income received to calculate Effective Income.

**NOTE:** The tax-exempt nature of some of the above payments should also be considered.

## *Foster-Care Income*

Verify the foster care income with letters of verification from the organizations providing the income, and document that the borrower has a two-year history of providing foster care services. Foster care income must be likely to continue for the next three years.

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## *Non-Taxable Income*

Certain types of income are not subject to Federal income tax. Examples of non-taxable income include but are not limited to:

- Some portion of Social Security Income;
- Some federal government employee Retirement Income;
- Railroad Retirement Benefits;
- Some state government Retirement income;
- Certain types of disability and Public Assistance payments;
- Child Support
- Foster Care
- Military Allowances

**NOTE:** *All of these income types require a minimum 3 year continuance to be used for qualifying.*

The amount of income to be grossed up for any non-taxable income source must be documented and supported, as well as the current tax rate applicable to the borrower's income that is being grossed up.

The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income. The percentage of non-taxable income that may be added *cannot* exceed the greater of 15% or the appropriate tax rate for the income amount, based on the borrower's tax rate for the previous year. If the borrower was not required to file a federal tax return for the previous tax reporting period, MiMutual may gross up the non-taxable income by 15%.

To determine the borrower's tax rate from the previous year, take the borrower's taxable income (from page 2 of the 1040 and the 1040A, or page 1 of the 1040EZ) and their filing status (single, married filing jointly, married filing separately, head of household), and compare it against a tax rate table for the applicable year. This will provide the rate that the borrower's taxable income is taxed at, and therefore what percentage their non-taxable income may be grossed up by.

## *Short Term Disability / Workman's Comp*

Follow AUS findings for documentation requirements.

For borrowers on temporary leave that intend to return to work and are eligible to do so, see [Temporary Reduction in Income](#).

## *Foreign Income*

Foreign income will be considered as acceptable for qualifying **only** if the income is claimed on US Tax Returns and verifiable via 4506T results.

## *Ineligible Income Sources*

Income derived from an activity that is deemed illegal by federal or state law (for example, income derived from a business that is legal by state law but illegal by federal law) cannot be considered.

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## Expected Income

Expected income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 days of mortgage closing.

MiMutual must verify and document the existence and amount of expected income with the employer in writing and that it is guaranteed to begin within 60 days of mortgage closing. For expected retirement income, MiMutual must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

Income is calculated in accordance with the standards for the type of income being received. It must also be verified that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

Expected Income cannot be considered as effective income when it is to be derived from a family-owned business.

## Income Transcript Verification

4506T results (IRS transcripts) will be requested on every loan that is registered with MiMutual, unless it qualifies for the [W2 transcript waiver](#). These are reviewed to verify that the income documentation supplied matches the information provided to the IRS for the last 2 years of income used to qualify.

### **Full Tax Return Transcripts (1040s)**

When tax returns are required and must be verified, the Underwriter must also look for items that may not have been disclosed, such as Unreimbursed Business Expenses, self-employed earnings, and/or mortgage interest deductions where no real estate ownership appears on the 1003.

- Beginning in February 2017, the 2016 and 2015 results must be requested from the IRS by MiMutual.

**NOTE:** *If 2016 income is being used to qualify, it is acceptable to proceed with 4506T results showing no record of return found until June 1st.*

- If 2016 income is derived from tax returns and being used to qualify, but cannot be verified through 4506T results, the tax returns must be brought to the borrower's local IRS office to be signed and stamped as evidence the returns provided to MiMutual are the same as the ones filed with the IRS. **OR**, if tax returns were filed by a licensed CPA, it is acceptable to obtain a letter along with copies of the tax returns directly from the CPA confirming returns have been filed with the IRS. However, neither of these options are acceptable if borrowers have not filed tax returns for the last 2 years.
- If, upon underwriter review of the income documentation, it is determined that the 2014 earnings must be considered in qualifying the borrower, then 2014 transcripts are required.

Effective June 1st 2017, 2016 tax information is required to be verified. For Borrowers with a documented extension to file, it is acceptable to receive results that state "No Record of Return Found".

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**W2 Transcript Waiver**

MiMutual will not require IRS tax transcripts when all qualifying income is comprised exclusively of W2 wage earner income and/or fixed income reported on a 1099 (social security, VA benefits) that does not need to be grossed up, unless required by the AUS.

If the income must be grossed up in order to qualify, the borrower is self-employed or works for family, has commissions greater than 25%, or otherwise does not meet the waiver criteria described above, MiMutual's standard transcript policy applies.

If tax returns are provided or required for any reason, transcripts are required.

*Timing of Tax Returns*

When using tax returns to verify income, the following documentation requirements will apply. Only income that can be verified via 4506T can be used for qualifying. In cases where the 4506T results are unable to be obtained due to taxes having been recently filed, the IRS response to the request must reflect "No Record of Return Found". In these cases, the following options are available, and can be considered as "verified" for qualification purposes:

- Copies of the most recent year's signed return, stamped as received and signed by the borrower's local IRS office.
- If tax returns were filed by a licensed CPA, it is acceptable to obtain a letter, along with copies of the tax returns directly from the CPA, confirming returns have been filed with the IRS.

**NOTE:** *Large increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case-by-case basis, and are subject to underwriter discretion.*

When an IRS Form 4506T request returns one of the following messages:

- *"Due to limitations, the IRS is unable to process this request. The IRS will mail a notification to the borrower to explain this reason; please contact your borrower",*
- *"Rejection Code 10",* or
- other verbiage related to a "limitation" precluding completion of the request, the following steps may apply:
  - MiMutual must retain the determination from the IRS that their request cannot be processed, with a code of "Unable to Process" or "Limitation"
  - The applicant may request their tax return transcripts and deliver them to MiMutual. Information on how to request transcripts by mail is available at <http://www.irs.gov/individuals/get-transcript>
  - The applicant must request the previous (one or two, per MiMutual policy) years of complete tax return transcripts. If the applicant has not filed their 2014 taxes, MiMutual must retain:
    - Transcripts for the previous (one or two, per MiMutual policy) tax years,
    - Evidence of the applicant's request for an extension,
    - Documentation of 2014 earnings, and
    - Current income documentation as required per guidelines.

IRS transcripts are required as part of a complete loan application package. The above guidelines are only valid for lender requests that the IRS will not process due to the recent data breach or confirmed identity theft. These guidelines **do not** apply to "rejected" requests from the IRS due to misspelled names or incorrect/transposed data.

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## **Additional Documentation Requirements**

- When using tax returns to verify income, and it is between the tax filing date (typically April 15<sup>th</sup>) and the extension expiration date (typically October 15<sup>th</sup>), the borrower must provide:
  - Copy of the filed extension. MiMutual will review the total tax liability reported on IRS Form 4868 (Extension to File) and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for MiMutual to require the current returns in order to proceed.
  - Current year Profit & Loss Statement and Balance Sheet, executed by the borrower
  - Year-End Profit & Loss Statement for prior year, executed by the borrower
  - Tax returns for the previous 2 years
- After the tax return extension expiration date, loan is not eligible without prior year tax returns
- When tax returns provided were filed within 90 days of the application date and reflect that the borrower had underpaid throughout the year, proof of payment and source of funds are required to document that the tax liability has been fully satisfied. Any excessive tax liability outside of 90 days is subject to underwriter discretion.
- If the 4506T results reflect a borrower with a Schedule C business that the underwriter was previously unaware of, complete tax returns do not have to be obtained if:
  - The Schedule C business reflects positive income, **or**
  - The Schedule C business reflects a loss that fits in the borrower's ratios

The business must be added to the 1003 so the findings consider the self-employment and provide an accurate recommendation.

**NOTE:** *This only applies to Schedule C businesses, **not** Schedule E. If the Schedule E reflects any information (partnership, S Corporation, or rental properties) that the underwriter was previously unaware of, complete personal tax returns (and possibly business tax returns) must be obtained.*

## *Rental Income*

Rental Income refers to income received or to be received from the subject property or other real estate holdings.

### **Rental Income Received from the Subject Property**

MiMutual may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements. Rental Income from the subject property may be considered Effective Income when the property is a two- to four-unit dwelling. Documentation varies depending upon the length of time the borrower has owned the property.

#### ***Limited or No History of Rental Income***

Where the borrower does not have a history of Rental Income from the subject since the previous tax filing:

#### **Two- to Four-Units**

The proposed Rental Income must be verified and documented by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

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**One Unit**

The proposed Rental Income must be verified and documented by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report*; Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*; and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

***History of Rental Income***

Where the borrower has a history of Rental Income from the subject since the previous tax filing, the existing Rental Income must be verified and documented by obtaining the borrower's most recent tax returns, including Schedule E, from the previous two years.

For properties with less than two years of Rental Income history, the date of acquisition must be documented by providing the deed, Settlement Statement or similar legal document.

To calculate Effective Income, MiMutual must add the net subject property Rental Income to the borrower's gross income. MiMutual may not reduce the borrower's total Mortgage Payment by the net subject property Rental Income.

***Limited or No History of Rental Income***

To calculate the Effective Income from the subject property where the borrower does not have a history of Rental Income from the subject property since the previous tax filing, the mortgagee must use the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
- 75 percent of the lesser of:
  - fair market rent reported by the appraiser; or
  - the rent reflected in the lease or other rental agreement.

***History of Rental Income***

MiMutual must calculate the Rental Income by averaging the amount shown on Schedule E. Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two years, MiMutual must annualize the Rental Income for the length of time the property has been owned.

**Rental Income from Other Real Estate Holdings (TOTAL)**

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the property being vacated by the borrower, the borrower must be relocating to an area more than 100 miles from the borrower's current Principal Residence. A lease agreement of at least one year's duration after the mortgage is closed must be obtained, along with evidence of the payment of the security deposit or first month's rent.

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**Limited or No History of Rental Income**

Where the borrower does not have a history of Rental Income since previous tax filing, including property being vacated by the borrower, an appraisal evidencing market rent and that the borrower has at least 25 percent equity in the property must be obtained. The appraisal is not required to be completed by an FHA Roster appraiser.

**Two- to Four-Units**

The proposed Rental Income must be verified and documented by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

**One Unit**

The proposed Rental Income must be verified and documented by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

**History of Rental Income**

The Borrower's last two years' tax returns with Schedule E must be obtained.

The direction for calculating net rental income from other real estate holdings below must be followed.

**Limited or No History of Rental Income**

To calculate the effective net Rental Income from other real estate holdings where the borrower does not have a history of Rental Income since the previous tax filing, MiMutual must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
- 75 percent of the lesser of:
  - fair market rent reported by the appraiser; or
  - the rent reflected in the lease or other rental agreement.

**History of Net Rental Income**

MiMutual must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all properties included on the Schedule E. Depreciation shown on Schedule E may be added back to the net income or loss. If the property has been owned for less than two years, MiMutual must annualize the Rental Income for the length of time the property has been owned.

For properties with less than two years of Rental Income history, the date of acquisition must be documented by providing the deed, Settlement Statement or similar legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

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**Boarders of the Subject Property**

Boarder refers to an individual renting space inside the borrower's dwelling unit. Rental income from boarders is only acceptable if the borrower has a two-year history of receiving income from boarders that is shown on the tax return and the borrower is currently receiving boarder income.

Two years of the Borrower's tax returns evidencing income from boarders and the current lease must be obtained. For purchase transactions, a copy of the executed written agreement documenting their intent to continue boarding with the borrower must be obtained.

The Effective Income must be calculated by using the lesser of the two year average or the current lease.

**Three- and Four-Unit Properties (Self-Sufficiency Rental Income)**

Net Self-Sufficiency Rental Income refers to the rental income produced by the subject property over and above the principal, interest, taxes, and insurance.

Net rental income for three- and four-unit properties is calculated using the following formula:

- The appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy
- Minus the greater of the
  - Appraiser's estimate for vacancies and maintenance, OR
  - 25 percent of the fair market rent.

The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100% for three- to four-unit properties.

**NOTE:** *This net rental income calculation is used to determine the maximum loan amount. Borrowers must still qualify for the mortgage based on income, credit, cash to close, and projected rents received from remaining units. Projected rent may only be considered gross income for qualifying purposes. It cannot be used to offset the monthly mortgage payment.*

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## Assets

*MiMutual follows AUS findings for acceptable documentation. All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.*

### *Minimum Required Investment (MRI)*

Minimum Required Investment (MRI) refers to the borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the property.

Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI; however, the refund of the borrower's POCs may be used toward the borrower's MRI if it is documented that the POCs were paid with the borrower's own funds.

### **Source Requirements for the Borrower's MRI**

The borrower's MRI is only permitted to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the borrower's MRI may not come from:

- The seller of the property;
- Any other person or entity who financially benefits from the transaction (directly or indirectly); or
- Anyone who is or will be reimbursed, directly or indirectly, by any party mentioned in the first two bullet points above

While additional funds to close may be provided by one of these sources if permitted under the relevant source of funds requirements above, none of the borrower's MRI may come from these sources. Permissible sources for the full MRI must be documented in accordance with special requirements noted above.

Additionally, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the borrower's MRI where the Governmental Entity is originating the insured mortgage through one of its homeownership programs. For detailed direction regarding MRI contributions from Governmental Entities, see the [4000.1](#).

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## Reserves

All assets submitted to the AUS must be verified and documented. Reserves refer to the sum of the borrower's verified and documented liquid assets minus the total funds the borrower is required to pay at closing.

Reserves do not include:

- The amount of cash taken at settlement in cash-out transactions;
- Incidental cash received at settlement in other loan transactions;
- Equity in another property; or
- Borrowed funds from any source.

Reserve requirements must be based on the full monthly payment amount for the property (PITIA) and not only principal, interest, taxes, and insurance (PITI). The monthly payment amount is defined as the sum of the following monthly charges:

- Principal and interest payments on the mortgage
- Property hazard insurance premiums
- Real estate taxes
- When applicable:
  - Mortgage insurance premiums
  - Homeowners Association dues (excluding unit utility charges)
  - Payments on secondary financing

**NOTE:** *Principal and interest payments on ARMs must be calculated based on the qualifying rate.*

### **Required Reserves for Three- to Four-Unit Properties**

Reserves equivalent to three months PITIA+MI after closing must be verified and documented for three- to four-unit properties.

## Source of Funds

Liquid assets for cash to close and reserves must be verified as indicated below.

### **Checking and Savings Accounts**

The existence of and amounts in the borrower's checking and savings accounts must be verified and documented. For recently opened accounts and recent [large deposits](#), documentation of the deposits must be obtained. It must be verified that no debts were incurred to obtain part, or all, of the MRI.

To document funds from Checking and Savings Accounts, a written VOD **and** the borrower's most recent statement for each account must be obtained. If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, statements for the most recent two months must be obtained.

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**Cash on Hand**

The borrower's cash on hand must be verified as having been deposited in a financial institution or held by the escrow/title company.

The borrower's cash on hand must be verified and documented by obtaining an explanation from the borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds. The reasonableness of the accumulation must be determined based on the time period during which the funds were saved and the borrower's:

- Income stream;
- Spending habits;
- Documented expenses; and
- History of using financial institutions

**Retirement Accounts**

Up to 60% of the value of assets, less any existing loans, from the borrower's retirement accounts (IRAs, thrift savings plans, 401(k) plan, and Keogh accounts) may be included unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties. The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as reserves.

The most recent monthly or quarterly statement must be obtained to verify and document the existence and amounts in the borrower's retirement accounts, the borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account. **If any portion of the asset is required for funds to close, evidence of liquidation is required.**

*Access Letters*

Any depository account that is not solely in the borrower's name must be accompanied by a written statement signed by all non-borrower parties listed on the account, granting full access and use of the funds.

*Large Deposits*

MiMutual will:

- obtain an explanation and documentation for recent large deposits in excess of 1% of the Adjusted Value, and
- verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased.

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## Gifts (Personal and Equity)

Gifts refer to the contributions of cash or equity with no expected or implied repayment of the funds to the donor by the borrower.

### **Acceptable Sources for Gift Funds**

Gifts may be provided by:

- the borrower's family member
- the borrower's employer or labor union
- a close friend with a clearly defined and documented interest in the borrower
- a charitable organization
- a governmental agency or public entity that has a program providing home ownership assistance to
  - low- and moderate-income families, or
  - first-time homebuyers.

**NOTE:** Family member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: Child, parent, or grandparent (a child is defined as a son, stepson, daughter, or stepdaughter; a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent); Spouse or domestic partner; Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption; Foster child; Brother, step-brother; Sister, step-sister; Uncle; Aunt; or Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.

The gift donor may *not* be a person or entity with an interest in the sale of the property, such as:

- the seller
- the real estate agent or broker
- the builder, or
- an associated entity.

Any gift of the borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

### **Donor's Source of Funds**

Cash on Hand is not an acceptable source of donor gift funds.

### **Gift Letter**

A gift letter must be obtained, signed and dated by the donor and borrower. The gift letter must:

- show the donor's name, address, telephone number
- specify the dollar amount of the gift, and
- state:
  - the nature of the donor's relationship to the borrower, and
  - that no repayment is required.

An acceptable [Gift Letter](#) is located on MiMutual's website. A different form may be used, providing it contains all the same information.

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## **Documenting the Transfer of Gift Funds**

The transfer of gift funds from the donor to the borrower must be documented in accordance with the requirements below:

- if the gift funds have been verified in the borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the borrower's account
- if the gift funds **are not** verified in the borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account

If the gift funds are paid directly to the settlement agent, it must be verified that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the donor must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction

MiMutual and its affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public

Regardless of when gift funds are made available to a borrower, MiMutual must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

**NOTE:** For all documentation methods, a copy of the donor's statement to verify the source of funds is always required.

## **Gifts of Equity**

Only family members may provide equity credit as a gift on property being sold to other family members.

A gift letter signed and dated by the donor and the borrower must be obtained, and include the following:

- The donor's name, address, and telephone number;
- The donor's relationship to the borrower;
- The dollar amount of the gift; and
- A statement that no repayment is required

## *Gift Funds/Grants by Charitable Organizations*

Gifts administered by charitable organizations are acceptable. The gift from the charitable organization to the homebuyer must meet FHA requirements and the transfer of funds must be properly documented. Gifts from charitable organizations where the seller makes a contribution are not acceptable.

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## *Collateralized Loans*

A collateralized loan is a loan that is fully secured by a financial asset of the borrower, such as depository accounts, Certificates of Deposit, investment accounts, or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. MiMutual must reduce the amount of the corresponding asset by the amount of the collateralized loan.

An independent third party must provide the borrowed funds. The seller, real estate agent, broker, lender, or other interested party may not provide such funds. Unacceptable borrowed funds include unsecured signature loans, cash advances on credit cards, borrowing against household goods and furniture, and other similar unsecured financing. Any loan of the borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

The existence of the borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds must be verified and documented.

## *Retirement Account Loans*

A Retirement Account Loan is a loan that is secured by the borrower's retirement assets. MiMutual must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

The existence and amounts in the Borrower's retirement accounts and the outstanding loan balance must be verified and documented.

## *Sale of Personal Property*

Proceeds from the sale of personal property (cars, recreational vehicles, stamps, coins, baseball card collections, etc.) is an acceptable source of funds for the down payment, closing costs and reserves, provided the individual purchasing it is not a party to the transaction in any way. The following must be documented:

- The borrower's ownership of the asset
- The value of the asset as determined by an independent and reputable source. This may be in the form of published value estimates, such as those issued by automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction.
- The transfer of ownership of the asset, as documented by a bill of sale and a copy of funds received from purchaser
- The borrower's receipt of the sale proceeds with a copy of the deposit slip and bank statement showing new balances

MiMutual must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

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## *Sale of Real Property*

The sale of real property refers to the sale of property currently owned by the borrower. Net proceeds from the sale of real property may be used as an acceptable source of funds.

The actual sale and the net sales proceeds must be verified and documented by obtaining a fully executed Settlement Statement or similar legal document, dated within 30 days of the Note for the current transaction. It must also be verified that the transaction was arms-length, and that the borrower is entitled to the net sales proceeds.

## *Real Estate Commission from Sale of a Subject Property*

Real Estate Commission from Sale of Subject Property refers to the borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the property being purchased.

MiMutual may consider Real Estate Commissions from the Sale of the Subject Property as part of the borrower's acceptable source of funds if the borrower is a licensed real estate agent. A Family Member entitled to the commission may also provide it as a gift, in compliance with standard [gift requirements](#).

It must be verified and documented that the borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Subject Property being purchased.

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## Refinance Transactions

*A refinance transaction is a new mortgage for a borrower with legal title on the same property, with the proceeds used to pay off any existing liens.*

### *Types of Refinances*

FHA insures several different types of refinances:

- No Cash Out Refinances of FHA-insured and non FHA-insured mortgages are designed to pay existing liens. These include:
  - [Rate and Term refinances](#),
  - [Simple refinances](#), and
  - Streamline refinances (whether [credit-qualifying](#) or [non-credit qualifying](#))
- Cash Out Refinances are designed to pull equity out of the property
- Refinances for rehabilitation or repair (whether [Standard 203\(k\)](#) or [Limited 203\(k\)](#))

### *General Borrower Eligibility*

At least one borrower on the refinancing mortgage must hold title to the property being refinanced prior to the Case Number Assignment.

### *Current Status of the Mortgage Being Refinanced*

Borrowers must be current on the mortgage being refinanced for the month due **prior** to the month in which they close the refinance, and for the month in which they close. For example, if the borrower is closing on April 8, the borrower must have paid the March payment within the month of March. The borrower must make the April payment by closing. The borrower has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing (in this scenario, the loan must close **and disburse** in April).

### *Mortgage Payoffs*

All refinance transactions will require current payoff statements for all liens on title to reflect the loan is current at time of closing.

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## Cash-Out Refinances

In order to be eligible for a cash-out refi, the subject property has to have been owned and occupied by the borrower as their principal residence for at least 12 months **preceding the date of the case number assignment**. However, in the case of inheritance, a borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance, provided the borrower has not treated the subject property as an Investment Property at any point since inheritance of the property. If the borrower rents the property following inheritance, the borrower is not eligible for a cash-out refinance until the borrower has occupied the property as a principal residence for at least 12 months. Employment documentation or utility bills must be obtained and reviewed to evidence the borrower has occupied the subject property as their principal residence for the 12 months prior to case number assignment.

The maximum base mortgage amount is 85% of the [Adjusted Value](#). The combined mortgage amount of the first mortgage and any subordinate financing may never exceed the geographical statutory limit.

### **Housing Payment History**

It must be documented that the borrower has made all payments for all their mortgages within the month due for the previous 12 months or since the borrower obtained the mortgages, whichever is less. Additionally, the payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage disbursement. Properties with mortgages must have a minimum of six months of mortgage payments. Properties owned free and clear may be refinanced as cash out transactions.

If the mortgage on the subject property is not reported in the borrower's credit report or is not in the name of the borrower, a verification of mortgage, bank statements or other documentation must be obtained to evidence that all payments have been made by the borrower in the month due for the previous 12 months.

For loans funded on/after March 1, 2018, when the loan being refinanced is an FHA, USDA, or VA loan, the following requirements also apply:

- The borrower must have made at least six consecutive monthly payments on the loan being refinanced, beginning with the payment made on the first payment due date; *and*
- The first payment due date of the refinance loan must occur no earlier than 210 days after the first payment due date of the loan being refinanced

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**Additional Underwriting and Eligibility Criteria**

- Borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible.
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and are subject to 85% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required. Modified existing subordinate liens are acceptable and are not considered a new subordinate lien.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 85% CLTV. The borrower must qualify with the scheduled monthly payments.
- Non-Occupant Co-Borrowers are not permitted on cash-out refinance transactions.
- Property may not have been listed for sale a minimum of six months prior to disbursement, or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to disbursement. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required. These properties pose an increased risk to MiMutual; therefore, may be subject to additional documentation or limitations.

**At-a-Glance Eligibility**

This subsection provides a snapshot of the eligibility requirements for cash out refinance loans. For further direction/detail on these criteria, refer to the applicable sections of this document, Agency guidance, or the GNMA APM.

- The property securing the cash-out refinance must have been owned and occupied by the borrower as their principal residence for the 12 months prior to the date of case number assignment;<sup>1</sup>
- properties with mortgages must have a minimum of six months of mortgage payments;<sup>2</sup>
- the six months of mortgage payments must be consecutive beginning with the payment made on the first payment due date (applicable if the loan being refinanced is FHA, VA, or USDA);<sup>3</sup>
- all mortgage payments must have been paid within the month due;<sup>2</sup>
- the mortgage payment for the month prior to disbursement of the new mortgage must have been made;<sup>2</sup>
- the borrower must have made all payments for all mortgages within the month due for the previous 12 months or since the borrower obtained the mortgages, whichever is less;<sup>2</sup> and
- the first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the initial loan (applicable if the loan being refinanced is FHA, VA, or USDA.)<sup>3</sup>

<sup>1</sup>FHA 4000.1 II.A.8.d.v.(A)(1)(a)

<sup>2</sup>FHA 4000.1 II.A.8.d.v. (A)(2)(a)

<sup>3</sup>Ginnie Mae APM 17-06

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## *No Cash Out Refinances*

The maximum base mortgage is 97.75% of the [Adjusted Value](#). The base mortgage amount may never exceed the geographical statutory limit (it is acceptable for the total loan amount to exceed the geographical statutory limit, but only by the amount of any new UFMIP). See [FHA MIP Charts](#)

There are different types of No Cash Out Refinances:

- **Rate and Term:** this refers to a no cash out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction
- **Simple Refinance:** this refers to a no cash out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject property and costs associated with the transaction
- **Streamline Refinance:** this refers to the refinance of an existing FHA-insured mortgage requiring limited borrower credit documentation and underwriting. It can either be [Credit Qualifying](#) or [Non-Credit Qualifying](#)

### **Rate and Term Refinance**

The maximum LTV for a rate and term refinance is:

- 97.75% for principal residences that have been owner-occupied for the previous 12 months, or owner occupied since acquisition if acquired within 12 months, at case number assignment; or
- 85% for a borrower who has occupied the subject property as their principal residence for fewer than 12 months prior to case number assignment date; or if owned less than 12 months, has not occupied the property for that entire period of ownership

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**Maximum Mortgage Amount Calculation**

To calculate the maximum mortgage amount for a rate and term refinance, take:

- the lesser of:
  - the Nationwide Mortgage Limit;
  - the maximum LTV based on the maximum LTV ratio above; or
  - the sum of existing debt and costs associated with the transaction as follows:
    - existing debt includes:
      - the unpaid principal balance (UPB) of the first mortgage as of the month prior to mortgage disbursement;
      - the UPB of any purchase money junior mortgage as of the month prior to mortgage disbursement;
      - the UPB of any junior liens over 12 months old as of the date of mortgage disbursement. If the balance or any portion of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond \$1,000 of the line of credit is not eligible for inclusion in the new mortgage;
      - ex-spouse or coborrower equity, as described in [Refinancing to Buy Out Title Holder Equity](#);
      - interest due on the existing mortgage(s);
      - the unpaid principal balance of any unpaid PACE obligation;
      - Mortgage Insurance Premium (MIP) due on existing mortgage;
      - any prepayment penalties assessed;
      - late charges; and
      - escrow shortages;
    - allowed costs include all borrower-paid costs associated with the new mortgage; and
    - any borrower-paid repairs required by the appraisal;
- less any refund of the Upfront Mortgage Insurance Premium (UFMIP), if financed in the original mortgages.

**Refinancing to Buy Out Title-Holder Equity**

When the purpose of the new mortgage is to refinance an existing mortgage to buy out an existing title-holder's equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation. The divorce decree, settlement agreement, or other legally enforceable equity agreement must be obtained to document the equity awarded to the title-holder.

**Refinancing to Pay Off Recorded Land Contracts**

When the purpose of the new mortgage is to pay off an outstanding recorded land contract, the UPB shall be deemed to be the outstanding balance on the recorded land contract.

Unrecorded land contracts must be considered as purchase transactions, and may not be refinanced.

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**Additional Underwriting and Eligibility Criteria**

- Existing subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and subject to 97.75% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 97.75% CLTV. The borrower must qualify with the scheduled monthly payments.
- When determining CLTV on a loan that has a subordinating open-ended line of credit, the maximum accessible credit limit of the subordinate lien must be used to calculate the CLTV ratio.
- At closing, the borrower may not receive cash back in excess of \$500 (any cash back to the borrower resulting from the refund of the borrower's unused escrow balance from the previous mortgage must not be considered in the \$500 cash back limit, whether received at or subsequent to mortgage disbursement).
- Non-occupant co-borrowers are allowed on Rate and Term Refinance transactions. A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan and purchase or refinance a primary home with FHA-insured financing (see [Non-Occupying Co-Borrower](#) guidelines for further detail). Non-occupying co-borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy)
- Cosigners are treated the same as non-occupant co-borrowers (above) for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents.
- The subject property may not be currently listed for sale (must be off of the market for a minimum of 1 day prior to disbursement to be eligible for a rate and term refinance).

**Simple Refinance**

The maximum LTV/CLTV ratio for a Simple Refinance is 97.75%.

**Maximum Mortgage Amount Calculation**

The maximum mortgage amount for a Simple Refinance is:

- the lesser of:
  - the [Nationwide Mortgage Limit](#);
  - the maximum LTV ratio from above; or
  - the sum of existing debt and costs associated with the transaction as follows:
    - existing debt includes:
      - unpaid principal balance of the FHA-insured first mortgage as of the month prior to mortgage disbursement;
      - interest due on the existing mortgage;
      - MIP due on existing mortgage;
      - late charges; and
      - escrow shortages;
    - allowed costs include all borrower paid costs associated with the new mortgage; and
    - borrower-paid repairs required by the appraisal;
- less any refund of UFMIIP (if financed in original mortgage).

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**Additional Underwriting and Eligibility Criteria**

- Existing subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and subject to 97.75% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 97.75% CLTV. The borrower must qualify with the scheduled monthly payments.
- When determining CLTV on a loan that has a subordinating open-ended line of credit, the maximum accessible credit limit of the subordinate lien must be used to calculate the CLTV ratio.
- At closing, the borrower may not receive cash back in excess of \$500 (any cash back to the borrower resulting from the refund of the borrower's unused escrow balance from the previous mortgage must not be considered in the \$500 cash back limit, whether received at or subsequent to mortgage disbursement).
- Non-occupant co-borrowers are allowed on Simple Refinance transactions. A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan and purchase or refinance a primary home with FHA-insured financing (see [Non-Occupying Co-Borrower](#) guidelines for further detail). Non-occupying co-borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy)
- Cosigners are treated the same as non-occupant co-borrowers (above) for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents.
- The subject property may not be currently listed for sale (must be off of the market for a minimum of 1 day prior to disbursement to be eligible for a rate/term refinance).

**UFMIP Refunds**

If the borrower is refinancing their current FHA-insured mortgage to another FHA-insured mortgage within 3 years, a refund credit is applied to reduce the amount of the UFMIP paid on the refinanced mortgage.

A Refinance Authorization must be obtained from FHACConnection on all FHA-to-FHA refinances.

**Refund Amount Selection**

On FHA to FHA refinances (including streamlines), the MIP Refund from the Refinance Authorization screen will be selected based on the month of disbursement, not closing. For example, if a loan closes in June but does not disburse until July, the July MIP Refund will be credited back to the borrower at closing.

**Refund Amount Calculation**

On any refinance where the MIP refund exceeds the Upfront MIP required on the new loan, the overage will be refunded directly to the borrower from HUD so that the borrower will not be burdened with additional out-of-pocket expenses. The lesser of the MIP refund or the new upfront MIP should be subtracted from the unpaid principal balance before calculating the new mortgage amount.

**NOTE:** The UFMIP credit must be applied on all FHA to FHA refinances (including streamlines).

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## *Non-Occupying Co-Borrowers*

A Non-Occupying borrower transaction is a transaction involving two or more borrowers where one or more borrower(s) will not occupy the property as his/her primary residence. Non-occupying coborrowers or cosigners must either be US Citizens or have a principal residence in the United States.

For non-occupying borrower transactions, the maximum LTV is 75%. The LTV can be increased to a maximum of 96.5% if the borrowers are [family members](#), provided the transaction does not involve:

- A family member selling to a family member who will be a non-occupying coborrower; or
- A transaction of a two- to four-unit property

A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan, and purchase or refinance their primary home with FHA-insured financing. Non-Occupying Co-Borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy).

Cosigners are treated the same as non-occupying co-borrowers for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents, as they are liable for the debt.

A party who has a financial interest in the mortgage transaction, such as the seller, builder, or real estate agent, may not be a coborrower or a cosigner (exceptions may be granted when the party with the financial interest is a family member).

## *Texas Refinances*

When refinancing a borrower's primary residence (homestead) in Texas, it first has to be determined whether or not the property is eligible for maximum financing based on the borrower's current liens. In Texas, there are 3 different types of refinances:

- A 50(a)(4) loan is a rate/term refinance of a loan that **is not** currently an equity loan subject to 50(a)(6) restrictions
- A 50(f)(2) loan is a rate/term refinance of a loan that **is** currently an equity loan subject to 50(a)(6) restrictions
- A 50(a)(6) loan is a cash out refinance of the borrower's homestead, and is considered to be a home equity loan

**Texas 50(a)(6) transactions are not permitted on FHA loans.** MiMutual will only approve purchases, 50(a)(4) refinances, and [50\(f\)\(2\)](#) refinances.

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Because incidental cash back to the borrower is not permitted on a 50(a)(4) or a 50(f)(2) refinance in Texas, MiMutual considers the following practices unacceptable:

- Including Fees Paid Outside of Closing in the Loan Amount  
Per Texas requirements, a fee that is paid outside of closing cannot be financed into the loan amount. When cash back is considered a refund for fees paid outside of closing (POC), MiMutual has essentially financed POC fees into the new loan amount. Additionally, MiMutual requires that in order for fees to be included in the loan amount, the fee must be reasonable, incurred, and be a necessary closing cost (i.e. required to close the transaction).
- Principal Curtailments/Reductions  
Applying a principal curtailment/reduction (normally the amount of the POC fees) results in a reduction to the principal amount of the loan as listed on the CD; however, the principal amount of the loan as listed on the loan documents – the amount the borrower is obligated to pay – has not been reduced.
- Increasing Payoff Amounts for the Purpose of Reducing Cash Back  
Reducing cash back to the borrower by increasing payoff amounts on the CD results in prohibited cash back to the borrower in the form of a payoff refund.

### **50(f)(2)**

Due to the legislation changes that took effect on January 1, 2018, the “Once a Home Equity, always a Home Equity” limitation no longer applies, and the refinance of a home equity loan as a rate/term refinance, called a 50(f)(2), is now allowed. Additional restrictions beyond the typical allowance for a 50(a)(4) loan apply.

To be eligible as an (f)(2) transaction:

- The refinance loan must close at least one year after the (a)(6) home equity loan was closed;
- No additional funds are advanced other than funds to refinance the existing debt, actual closing costs, and required reserves;
- The transaction cannot exceed 80% LTV/CLTV/HCLTV of the fair market value of the subject property; **and**
- A new 12-Day Disclosure, the (f)(2) Disclosure, providing the borrower with their rights associated with an equity or non-home equity loan is required.
  - The (f)(2) Disclosure must be provided within 3 business days after the owner submits the loan application, **and**
  - May not be provided to the property owner prior to 1/1/2018, **and**
  - Must be provided to the property owner at least 12 days prior to loan close.
- The file must also contain a separate affidavit signed by the borrower at closing, the Owner’s Affidavit of Compliance, acknowledging that the requirements of Texas Section 50(f)(2) have been met.
- No attorney certification is required

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## Cash Out and Principal Curtailments

With the exception of properties located in Texas, a principal curtailment due to an excess premium from the Lender Credit is acceptable; however, a principal curtailment to correct the amount of cash back to the borrower is *not permitted*. The matrix below describes maximum cash out requirements and allowable curtailments.

<b>Product</b>	<b>Maximum Cash to Borrower</b>	<b>Maximum Principal Curtailment</b> Due to changes in payoff figures, closing costs, etc.	<b>Maximum Premium Pricing Curtailment</b>
<ul style="list-style-type: none"> <li>• FHA Streamline</li> <li>• FHA Rate/Term Refinance</li> </ul>	*\$500	Prohibited	1% of the loan amount or \$2,000, whichever is less

When a principal curtailment is permitted, all excess amounts must be clearly reflected on the Closing Disclosure as a principal reduction.

\*Loan amounts must be properly calculated for the specified loan programs. If the loan amount is outside of the guidelines, the loan amount must be corrected.

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## Purchase Transactions

### *Calculating Maximum Mortgage Amount*

The maximum mortgage amount that FHA will insure on a specific purchase is calculated by multiplying the appropriate LTV percentage by the [adjusted value](#). The borrower must make a Minimum Required Investment (MRI) of at least 3.5 percent of the adjusted value in order for FHA to insure the maximum mortgage amount.

The refund of the borrower's POCs may be used toward the borrower's MRI if it is documented that the POCs were paid with the borrower's own funds.

### *Residential Purchase Agreement*

All purchase transactions require this document to be executed by ALL parties. The current owner of record must execute as the seller of subject property. All purchasers listed on the sales contract must be borrowers, and only borrowers may sign the sales contract. However, the family member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal. All sellers that sign the purchase agreement must be authorized by that entity. The transaction may not involve any sale or assignment of the sales contract.

If any changes to the purchase agreement occur, see [Revisions Due to Sales Contract Amendments](#).

### *Earnest Money Deposit (EMD)*

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the borrower's cancelled check;
- certification from the deposit-holder acknowledging receipt of funds; or
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the EMD was a gift, it must be verified that the gift is in compliance with [Gifts \(Personal and Equity\)](#).

### *Amendatory Clause*

FHA Amendatory Clause is intended to ensure that prospective homebuyers with FHA-backed loans receive important information in a timely manner about the house to be purchased. If buyers have not received information about the appraised value of the home they intend to buy, the buyers are not obligated to buy the home. The borrower (buyer) and seller must execute this document. Please refer to our website for a copy of this form.

The actual dollar amount of the sales price as stated in the contract must be inserted in the Amendatory Clause. Increases to the sales price require a revised Amendatory Clause.

**NOTE:** *This disclosure is not required on properties owned by banks or Agencies, REO properties being disposed of by a lender, or loans written under the 203(k) program.*

## *Real Estate Certification*

This disclosure is to be signed by ALL parties involved in the transaction: borrower, seller, real estate agent(s), and broker(s). It certifies that the terms and conditions of the sales contract are true to the best of their knowledge. Please refer to our website for a copy of this form.

It is **not** needed if:

- The sales contract contains a provision that
  - There are no other agreements between parties, and
  - The terms constitute the entire agreement between the parties, and
- All parties are signatories to the sales contract submitted at the time of underwriting

## *For Your Protection Get a Home Inspection*

HUD-92564-CN needs to be provided to the borrower at first contact, whether it be for prequalification, preapproval, or initial application. Evidence of this can be supported by a copy of the document within the disclosure/application package.

If the property was built before 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house, in accordance with the HUD-EPA Lead Disclosure Rule. For such properties, MiMutual must ensure that:

- The Borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards (“Protect Your Family From Lead In Your Home”);
- the Borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or waived the opportunity;
- the sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:
  - containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1).
  - providing the seller’s disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;
  - listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
  - affirming that the Borrower received the pamphlet, disclosure, and records or reports, above; and
- when any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller’s Lead Disclosure Rule obligations, the agent is aware of his/her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

## *Short Sales*

MiMutual will accept purchase transactions where the seller is selling the home under a “short sale” agreement with their current lender. MiMutual must be provided with the fully executed short sale approval letter, and the requirements set forth by the current lender must be met prior to closing.

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## *Properties Purchased at Auction*

When the subject property is being sold at auction, the buyer's premium may be added to the bid price to determine total sales price. No other fees may be added.

## *Interested Party Contributions*

An Interested Party Contribution (IPC) is a payment by the seller and/or another interested party (real estate agent, builder, developer, or other parties with an interest in the transaction), or a combination of parties, toward the borrower's costs to close.

Interested parties may contribute up to 6% of the sales price toward the buyer's closing costs and discount points. The 6% limit also includes:

- Payments of mortgage interest for fixed rate mortgages;
- Mortgage payment protection insurance; and
- Payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. IPCs exceeding 6% are considered an inducement to purchase.

IPCs may not be used for the borrower's MRI. Payment of real estate agent commission or fees, typically paid by the seller under local or state law, or local custom, is not considered an IPC.

IPCs must be documented on the Purchase Agreement, as well as on Form HUD-92900-LT.

**NOTE:** *The satisfaction of a PACE lien or obligation against the property by the property owner is not considered an Interested Party Contribution.*

## *Inducements to Purchase*

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the borrower, and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the Adjusted Value;
- contributions exceeding the origination fees, other closing costs and discount points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the borrower's present residence; and
- below-market rent, except for borrowers who meet the Identity-of-Interest exception for Family Members

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## **Personal Property**

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

Personal property items that the borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum mortgage, are included in the total cash requirements for the mortgage.

## **Sales Commission**

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the borrower's sales commission on the sale of the borrower's present residence.

An inducement to purchase also exists when a borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the property being purchased by the borrower that exceeds what is typical for the area.

## **Rent Below Fair Market**

Rent may be an inducement to purchase when the sales agreement reveals that the borrower has been living in the property rent-free or has an agreement to occupy the property at a rental amount considerably below Fair Market Value.

Rent below Fair Market Value is not considered an inducement to purchase when a builder fails to deliver a property at an agreed-upon time, and permits the borrower to occupy an existing or other unit for less than market rent until construction is complete.

## ***Property Flipping***

The eligibility of a property for a mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the property and the date of execution of the sales contract that will result in the FHA-insured mortgage. FHA defines the *Seller's Date of Acquisition* as the date the seller acquired legal ownership of the property. The *Resale Date* is defined as the date of execution of the sales contract by all parties intending to finance the property with an FHA-insured loan.

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**Restriction on Resales Occurring 90 Days or Fewer After Acquisition**

A property that is being resold 90 days or fewer following the seller's date of acquisition is not eligible for an FHA-insured mortgage.

**Resales Occurring Between 91 Days and 180 Days After Acquisition**

A second appraisal must be obtained by another appraiser if:

- The resale date of the property is between 91 and 180 days following the acquisition of the property by the seller, **and**
- The resale price is 100% or more over the price paid by the seller when the property was acquired

If the second appraisal supports a value of the property that is more than 5% lower than the value of the first appraisal, the lower value must be used as the property value in determining the [Adjusted Value](#).

**NOTE:** *The cost of the second appraisal may not be charged to the borrower.*

**Exceptions to Time Restrictions on Resale**

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- Resales by HUD under its REO program;
- Sales by other US government agencies of Single Family Properties pursuant to programs operated by these agencies;
- Sales of properties that are acquired by the seller by inheritance;
- Sales of properties by state and federally-chartered financial institutions and Government Sponsored Enterprises (GSEs)
- Sales of properties by local and state government agencies

**NOTE:** *The restrictions listed above do not apply to a builder selling a newly-built house or building a house for a borrower planning to use FHA-insured financing.*

**Seller's Acquisition Cost**

The seller's acquisition cost is the purchase price which the seller paid for the property, and the following costs (if paid by the seller):

- Closing costs, plus
- Prepaid costs, including commissions
- The seller's acquisition cost does not include the cost of repairs that the seller makes to the property.

***Prior Sales***

Prior sales are to be evidenced by the most recent Warranty Deed from the seller's acquisition of the property that reflects the dollar amount of the sale, or the certificate of foreclosure on bank owned properties.

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## *12 Month Chain of Title*

The twelve month chain of title is to be evidenced by all deeds that affect the subject property in the last 12 months, reflecting the dollar amount(s) of the sale(s).

## *Three- and Four-Unit Properties*

The borrower **must** have personal reserves equivalent to three months PITI+MI after closing on purchase transactions. Reserves **cannot** be derived from a gift.

## *Purchase Transactions with Identity of Interest*

An Identity of Interest transaction is a sale between parties with an existing business relationship or between family members.

Business relationship refers to an association between individuals or companies entered into for commercial purposes.

Family member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- Child, parent, or grandparent;
  - A child is defined as a son, stepson, daughter, or stepdaughter;
  - A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;
- Spouse or domestic partner;
- Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption;
- Foster child;
- Brother, step-brother;
- Sister, step-sister;
- Uncle;
- Aunt; or
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.

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Identity of Interest transactions on principal residences are restricted to a maximum LTV of ratio of 85%. The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85%. However, maximum financing (above 85% LTV) is permissible under the following circumstances:

- The borrower purchases the principal residence of another family member as a principal residence
- The borrower purchases, as a principal residence, a property owned by another family member in which the borrower has been a tenant for at least six months immediately predating the sales contract. Written documentation must be submitted to verify rental payments
- An employee of a builder (who is not a family member) purchases one of the builder's new homes or models as a principal residence.
- A current tenant purchases the property that he or she has rented for at least six months immediately predating the sales contract. (A lease or other written evidence must be submitted to verify occupancy).
- A corporation transfers an employee to another location, purchases that employee's home, and then sells the home to another employee.

### *Determining Property Taxes on New Construction Dwellings*

On newly-constructed properties, realistic estimates of the property taxes that reflect the value of the improvements once they are assessed by the units of government to which those taxes are paid must be used. Such estimates may be obtained from reliable sources such as the appraiser, comparable sales data, or the assessor's office.

### *Reacquisition of a Formerly-Owned Property*

MiMutual is unable to finance the acquisition of a property that the borrower (or their spouse) has had previous ownership in, that resulted in foreclosure or short sale activity, where they relinquished their ownership interest but did not change their residency. MiMutual considers this as unacceptable property flipping.

### *Non-Occupying Co-Borrowers*

A Non-Occupying borrower transaction is a transaction involving two or more borrowers where one or more borrower(s) will not occupy the property as his/her primary residence. Non-occupying coborrowers or cosigners must either be US Citizens or have a principal residence in the United States.

For non-occupying borrower transactions, the maximum LTV is 75%. The LTV can be increased to a maximum of 96.5% if the borrowers are [family members](#), provided the transaction does not involve:

- A family member selling to a family member who will be a non-occupying coborrower; or
- A transaction of a two- to four-unit property

A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan, and purchase or refinance their primary home with FHA-insured financing. Non-Occupying Co-Borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy).

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Cosigners are treated the same as non-occupying co-borrowers for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents, as they are liable for the debt.

A party who has a financial interest in the mortgage transaction, such as the seller, builder, or real estate agent, may not be a coborrower or a cosigner (exceptions may be granted when the party with the financial interest is a family member).

### *Secondary Financing Provided by Governmental Entities*

Secondary financing is any financing other than the first mortgage that creates a lien against the property. Any such financing that does create a lien against the property is not considered a gift or a grant, even if it does not require regular payments or has other features forgiving the debt.

A Governmental Entity refers to any federal, state, or local government agency or instrumentality. To be considered an Instrumentality of Government, the Entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 Entities to be Instrumentalities of Government for the purpose of providing secondary financing.

FHA will insure a first mortgage on a property that has a second mortgage or lien made or held by a Governmental Entity, provided that:

- The secondary financing is disclosed at the time of application;
- No costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- The insured first mortgage does not exceed the FHA [Nationwide Mortgage Limit](#) for the area in which the property is located;
- The secondary financing payments are included in the total mortgage payment;
- Any secondary financing of the borrower's MRI fully complies with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#);
- The secondary financing does not result in cash back to the borrower except for refund of the EMD or other borrower costs paid outside closing; and
- The second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- the functions performed are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the Mortgagee.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit. MiMutual must enter information on HUD-approved Nonprofits into FHA Connection (FHAC), as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

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There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

The following information must be obtained from the provider of any secondary financing:

- documentation showing the amount of funds provided to the borrower for each transaction;
- copies of the loan instruments; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured mortgage, signed by an authorized official and containing the following information:
  - the FHA case number for the first mortgage;
  - the complete property address;
  - the name, address and Tax ID for the nonprofit;
  - the name of the borrower(s) to whom the nonprofit is providing secondary financing;
  - the amount and purpose for the secondary financing provided to the borrower; and
  - a statement indicating whether the secondary financing:
    - will close in the name of the Governmental Entity; or
    - will be closed in the name of the nonprofit and held by the Governmental Entity.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved Nonprofit, a documented agreement must be provided that:

- the functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the mortgagee.

*It is important to note that the CLTV reflected on the AUS findings will most likely exceed 100%. However, you will still receive an Approve/Eligible recommendation if all data is entered correctly (and loan is not otherwise ineligible).*

For detailed information regarding Secondary Financing from other sources, refer to the [4000.1](#).

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## *Downpayment Assistance Programs*

MiMutual does not have a list of approved Downpayment Assistance Programs, as FHA does not “approve” downpayment assistance programs administered by charitable organizations, such as nonprofits. MiMutual **will not** allow any DAP from a provider that requires the lender to be approved.

FHA does not allow nonprofit entities to provide gifts to pay off:

- Installment loans
- Credit cards
- Collections
- Judgments
- Liens
- Similar debts

MiMutual must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented. One method of verifying that the entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c)(3) is the [IRS Exempt Organization Select Check](#), which contains a list of organizations eligible to receive tax-deductible charitable contributions.

## *Seller Utilizing a Relocation Company*

When the seller enlists the assistance of a Relocation Company for the sale of the subject property, there are multiple ways the transaction can be consummated, and it is very important to have a clear understanding of which of the below-mentioned methods is being used.

### **Relocation Company Takes Power of Attorney**

The most common circumstance is where the Relocation Company signs the purchase agreement as the seller, and will sign the closing documents on behalf of the vested owner. In this instance, a Power of Attorney executed by the vested owner(s), authorizing the relocation company to sign on their behalf (the vested owner will reflect as the seller on the Closing Disclosure) will be required. The Power of Attorney must be executed and dated prior to the execution of the purchase agreement (unless the relocation agreement states that a Power of Attorney will be prepared to consummate the closing). *There must be documentation allowing someone else the right to sell the property.*

### **Double Escrow**

Another common occurrence involving relocation companies is where the Relocation Company will actually be the seller reflected on the Closing Disclosure. In this circumstance, the title commitment should have a requirement for the current vested owners to deed the property to the Relocation Company, and another requirement for the Relocation Company to deed the property to our borrower. This is the only time a “double escrow” is acceptable, and not considered property flipping. A copy of the relocation agreement is required.

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### **Relocation Company Acts as Seller without Taking Title**

In certain geographical areas (i.e. Michigan), it may be common practice for the Relocation Company to negotiate and execute the purchase agreement and Closing Disclosure at closing as the seller, and to receive the proceeds from the sale of the property without actually taking title. This option is acceptable only if all of the following fully executed documents are reviewed and approved by the underwriter prior to closing:

- **Warranty Deed Reflecting the Vested Owner with Buyer Info Left Blank:** This is a deed executed by the vested owners, which is held in escrow by the title company until a buyer is found and the sale is closed.
- **Appointment of Special Agent and Assignment of Proceeds:** This document is executed by the vested owner authorizing the Title Company/Closing Agent to complete the appropriate information on the blank deed and other pertinent documentation. This also directs the Title Company/Closing Agent to allow the Relo Company to receive all proceeds.
- **Special Power of Attorney:** This document is executed by the vested owner authorizing the Relo Company to sign/execute all documents necessary to consummate the sale (i.e. Purchase Agreement, closing docs, etc.). This document should also reference the blank deed that will be completed when a buyer is found and the sale is closed.
- **Relocation Agreement:** This is the agreement between the vested owner and the Relo Company that will describe the terms of the sale of the subject property. This document is essential in determining the legitimacy of the transaction to avoid potential unethical property flipping schemes.

### *Reimbursement of Buyer-Paid Costs*

Seller concessions may be used to reimburse the buyer for out of pocket expenses paid in advance (POC), such as appraisal fees. The source of funds used to pay for those fees must have come from the buyer's own personal funds in order to be reimbursed.

POC fees paid by credit card cannot be returned to the customer at closing or credited towards the borrower's cash investment.

In order to apply seller concessions toward POC fees, documentation is required to support the funds used came from the borrower's own personal funds (e.g. bank statement showing debit or check clearing account).

After Minimum Contribution Requirements are validated, the Borrower may receive a refund of their earnest money deposit, tax pro-rations, or POC fees paid from personal funds (credit card payments may not be refunded).

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## General Provisions

### *Documentation Requirements*

All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

### *Occupancy*

MiMutual only offers financing on owner-occupied principal residences. A principal residence refers to a dwelling where the borrower maintains or will maintain their permanent place of abode, and which the borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one principal residence at any one time.

At least one borrower must occupy the property within 60 days of signing the security instrument, and intend to continue occupancy for at least 1 year.

### **Military Personnel Eligibility**

Borrowers who are military personnel, who cannot physically reside in a property because they are on Active Duty, are still considered owner occupants and are eligible for maximum financing if a family member of the borrower will occupy the subject property as their principal residence, or the borrower intends to occupy the subject property upon discharge from military service.

MiMutual must obtain a copy of the borrower's military orders evidencing the borrower's Active Duty status and that the duty station is more than 100 miles from the subject property.

MiMutual must obtain the borrower's intent to occupy the subject property upon discharge from military service, if a family member will not occupy the subject property as their principal residence.

### *Citizenship*

Citizenship of the United States is not required for eligibility. Borrowers must be one of the following: a U.S. Citizen, a lawful Permanent Resident Alien, or a lawful Non-Permanent Resident Alien. We will lend under the same terms and conditions for all three designations. A mortgage to a non-U.S. citizen who has no lawful residency status in the United States is not eligible. In no case is a Social Security card alone sufficient to prove immigration or work status.

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**Permanent Resident Aliens**

Non-United States citizens who hold acceptable evidence of permanent residency issued by the U.S. Citizenship and Immigration Services (USCIS) are considered Permanent Resident Aliens. Lawful Permanent Resident Aliens must have any of the following:

- A legible copy of the front and back of the Permanent Resident Card / Alien Registration Card (USCIS Form I-551) otherwise known as a “Green Card”. While the Green Card itself states “Do Not Duplicate” for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.
- A legible copy of the unexpired foreign passport that contains an unexpired stamp reading “Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until (MM-DD-YY). Employment authorized”.
- Any other evidence of permanent residency issued by the USCIS.

**Non-Permanent Resident Aliens**

Non-United States citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship and Immigration Services (USCIS) are considered Non-Permanent Resident Aliens. A borrower who is a non-permanent resident alien may be eligible for FHA-insured financing, provided:

- The property will be the borrower’s principal residence;
- The borrower has a valid SSN, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- The borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document (EAD) issued by the USCIS; and
- The borrower satisfies the same requirements, terms, and conditions as those for US citizens

The EAD is required to substantiate work status. If the EAD will expire within 1 year and a prior history of residency status renewals exists, MiMutual may assume that continuation will be granted. If there are no prior renewals, MiMutual must determine the likelihood of renewal based on information from the USCIS.

**NOTE:** Borrowers with an EAD Code of C33 (defined as aliens present in the United States under Deferred Action for Childhood Arrivals (DACA)) are not eligible.

A borrower residing in the US by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The EAD is not required, but documentation substantiating the refugee or asylee status must be obtained.

**Non-US citizens without lawful residence in the US are not eligible for FHA-insured mortgages.**

**Additional Immigration Status**

Loans to non-citizens who have lawful residency in the United States, or have been granted political asylum, require underwriting to Non-Permanent Resident Aliens guidelines.

Asylees and refugees must provide their Arrival and Departure Records (Form I-94), which must substantiate the refugee or asylee status. A grant of asylum is for an indefinite period. The EAD is not required, as refugees and asylees are automatically authorized to work because of their immigration status.

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## *Social Security Number*

A valid Social Security Number is required for all borrowers. Evidence of social security number must be provided in each case file. Individual Tax Identification Number (ITIN) is not acceptable.

## *Translated Documents*

All documents of foreign origin must be filled out in English, or a complete and accurate translation from an acceptable source must be provided for each document.

## *Legal Name*

Each borrower must use their legal name when applying for a mortgage. Review the following list of documents to ensure the borrower's name is consistent:

- Loan application (1003)
- Credit Report
- DU/LP findings
- FHA Case Number Assignment

MiMutual requires that all pertinent loan documentation be prepared in the borrower's legal name. In most cases the name reflected on the driver's license is utilized to determine the borrower's legal name. However, in those instances where there is a variance between the driver's license, Social Security card, income, and asset documents, the underwriter will exercise due diligence to determine all documents belong to one and the same person.

### **Married Names**

If a borrower has recently married or is married during loan processing, the new married name, if applicable, will be utilized for all pertinent loan documentation. MiMutual will require a copy of the marriage license if the new name is not reflected on both the driver's license and the social security card. If Borrower Validation fails in FHA Connection due to this reason, MiMutual will order a third party Social Security Number verification.

**NOTE:** *In all of the above cases, an AKA/FKA affidavit will be required at closing*

## *Maximum Number of Financed Properties/Multiple Properties*

When multiple properties are owned, all mortgages must be current at time of closing. Also, if borrower is purchasing a new home (as owner occupied); however, is not selling current residence, MiMutual may consider the subject as non-owner occupied if the value of the subject is not greater than current residence (case by case). The borrower(s) can have no more than **four** properties financed including the subject property, and the maximum number of properties owned (financed or not) cannot exceed **ten**.

## *Maximum Number of Borrowers Allowed*

MiMutual does not allow any greater than 4 borrowers on a single loan.

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## *Age of Borrower*

The borrower must be old enough to enter into a mortgage Note that can be legally enforced in the state, or other jurisdiction, where the property is located. There is no maximum age limit for a borrower.

## *Signature Requirements for all Application Forms*

All borrowers must sign and date the initial and final Fannie Mae Form 1003, *Uniform Residential Loan Application* (URLA). All borrowers must sign and date page two of the initial form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*, and sign and date the complete final form HUD-92900-A. The application may not be signed by any party who will not be on the Note.

The initial, complete, signed URLA and page 2 of the 92900-A must be obtained before underwriting the mortgage application. The URLA must also contain the debts of a [non-borrowing spouse](#) if the borrower resides in or the property to be purchased is located in a community property state. Additionally, the URLA must contain the loan originator's name, NMLS identification number, telephone number, and signature.

All mortgage applications must be executed in the [legal names](#) of all parties.

### **Borrower's Authorization**

MiMutual must obtain the Borrower's authorization to verify the information needed to process the mortgage application. We must also obtain a non-borrowing spouse's consent and authorization where necessary to verify specific information required to process the mortgage application, including the non-borrowing spouse's consent for MiMutual to verify their SSN with the Social Security Administration (SSA).

### **Form HUD-92900-A Part IV**

MiMutual must obtain the borrower's signature on Part IV of the 92900-A to verify the borrower's SSN with the Social Security Administration. We must also obtain the non-borrowing spouse's signature on Part IV to verify their SSN with the SSA where necessary, to verify specific information required to process the mortgage application.

### **Borrower's Authorization for Use of Information Protected under the Privacy Act**

MiMutual must obtain the borrower's consent for use of the borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the mortgage or property securing the mortgage, and relating to any insurance claim and ultimate resolution of such claims by the mortgagee and FHA.

This must be in the form of a signed statement from the borrower that clearly expresses the borrower's consent for the use of their information as required above.

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## *Power of Attorney (at Closing)*

MiMutual allows Powers of Attorney (POA) to be used at closing under the following criteria:

- Application, initial disclosures, and Purchase Agreement (if applicable) must be signed by **all** parties of the loan
- Subject property must be owner-occupied
- All signatures on the POA must be notarized, and the POA must be reviewed by a MiMutual underwriter prior to closing. Signatures on the POA must match the signatures in the file to MiMutual's satisfaction.
- The POA must be transaction-specific, including the full property address of the subject
- The title policy must not make any exceptions based on the use of the POA

**NOTE:** *For properties located in Florida, all Powers of Attorney executed after October 1, 2011 are required to be signed by a Notary Public and two witnesses.*

Unless required by applicable state law, or they are the borrower's family member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney in fact under a POA:

- Mortgagee, or any employee or affiliate;
- Loan originator, or employer or employee;
- Title insurance company providing the title insurance policy, the title agent closing the mortgage, or any of their affiliates; or
- Any real estate agent or any person affiliated with such real estate agent

## *Rescission*

MiMutual will not waive a borrower's three-day right to rescind. No exceptions.

## *Tax and Insurance Escrows*

Escrows for taxes and insurance are required on all FHA loans. The escrow account must be sufficient to meet the following obligations when they become due:

- Hazard insurance premiums;
- Real estate taxes;
- Mortgage Insurance Premium (MIP);
- Special assessments
- Flood insurance premiums, if applicable;
- Any item that would create liens on the property positioned ahead of the FHA-insured mortgage, other than condominium or Homeowners' Association (HOA) fees

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## *Flood Insurance*

MiMutual requires flood insurance under the NFIP when any portion of the residential improvements is determined to be located within a SFHA. If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), MiMutual will not finance properties located in those areas.

MiMutual requires flood policies to either be from the NFIP, or be a policy that meets the NFIP requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in the NFIP's "Write Your Own" program. Flood policies from a private insurer are not permitted.

Flood insurance must be maintained for the life of the mortgage in an amount at least equal to the lesser of either:

- The outstanding balance of the mortgage, less estimated land costs, or
- The maximum amount of the NFIP insurance available with respect to the property improvements (typically \$250,000)

Flood insurance premiums **must** be escrowed, regardless of LTV and/or state law. The only exception to this requirement is if the property has adequate flood insurance coverage provided by a condominium association, homeowners association, or similar group, and the premium is paid by the group as a common expense.

## *Hazard Insurance*

For a first mortgage secured by a property on which an individually held insurance policy is maintained, coverage equal to the lesser of the following is required:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

**NOTE:** *Unless a higher maximum is required by state law, the maximum deductible is 5% of the policy face amount.*

## *Non-Homestead Property Taxes*

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

## *Title Companies/Settlement Agents*

We do not use an approved title company list. However, we reserve the right to refuse any title company / settlement agent. A loan specific Insured Closing Protection Letter must be received prior to closing, along with specific wiring instructions

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## *Title Requirements*

### **Redemption Periods on Title**

MiMutual will not accept an unexpired redemption period exception on the final title policy. This guidance applies when the seller is an entity other than the individual with redemption rights.

### **Schedule B**

All exceptions reflected in Schedule B of the preliminary title report that may impact lien position must be addressed and/or cleared to ensure the final title policy will reflect the loan in first lien position

## *Delinquent Property Taxes*

Any delinquent property taxes being paid at closing on a refinance transaction will be considered a cash-out transaction. Transactions with severely delinquent property taxes must be manually underwritten and are subject to underwriter discretion.

## *Paying Debt at Closing*

MiMutual will not allow any debt to be paid at closing on a purchase transaction. Any debt being paid at closing on a refinance (other than existing mortgages on subject property) will be considered a cash-out transaction.

## *Mortgage Payoffs*

All refinance transactions will require current payoff statements for all liens on title to reflect the loan is current at time of closing (should not reflect more than 59 days of interest). However, paying off an existing FHA loan, where it is permitted for the servicer to collect a full 30 days of interest if payment in full is received after the required monthly payment due date, may result in a full two months' worth of interest on the payoff. As long as the mortgage is current, this would be considered acceptable.

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## *Verifications*

Verification forms (VOEs / VODs / VORs, etc.) must pass directly between MiMutual and the provider without being handled or transmitted by any unknown or interested party, or using any interested party's equipment (including the borrower). Verifications must be addressed to the employer or financial institution and may not be directed to an individual (such as may be directed to Account Verification Department or Human Resources but not to John Doe). No document used in the processing or underwriting of a loan may be handled or transmitted by or through the borrower, a real estate agent or any other interested party to the transaction.

MiMutual must authenticate all documents received electronically by examining the source identifiers (ex: the fax banner header or the sender's email address), or by contacting the source of the document by telephone to verify the document's validity. The name and telephone number of the individual that MiMutual verified the validity of the document with must be documented.

### **Information Obtained via Internet**

MiMutual must authenticate documents obtained from an internet website and examine portions of printouts downloaded from the internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. MiMutual must visit the URL (or the main website listed in the URL, if the page is password protected) to verify the website exists, and print out evidence documenting the visit to the URL and website.

## *Age of Documents*

Documents used in the origination and underwriting of a mortgage may not be more than 120 days old at the disbursement date. Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 days old at the disbursement date.

Closing Protection Letters are valid for 30 days, unless the body of the CPL states a different validity period

For purposes of counting Days for periods provided in these guidelines, day one is the day after the effective or issue date of the document, whichever is later.

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## *Non-Borrowing Spouse*

On a purchase transaction, a non-borrowing spouse may appear on the security instrument or otherwise take title to the property at loan settlement. On a purchase or refinance transaction, if required by state law (dower right/homestead states), in order to perfect a valid and enforceable first lien, the non-borrowing spouse may be required to sign either the security instrument and/or other documentation evidencing that he or she is relinquishing all rights to the property. If the non-borrowing spouse executes the security instrument for such reasons, he or she is not considered a borrower or cosigner for our purposes, and should not sign the loan application. In community property states, the borrower's spouse is not required to be a borrower or a cosigner.

Where there are non-borrowing spouses who sign security instruments relinquishing their rights to the property pursuant to applicable state laws, these non-borrowing spouses do not have to sign the mortgage note. Signing the security instrument for such purposes does not make the non-borrowing spouse a co-borrower.

Except for the obligations specifically excluded by state law, the debts of the non-borrowing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state or the property to be insured is located in a community property state. Although the non-borrowing spouse's credit history is not to be considered a reason for credit denial, a credit report that complies with the FHA requirements must be obtained for the non-borrowing spouse in order to determine the debt-to-income ratio. The credit report must indicate the non-borrowing spouse's SSN was matched with the SSA, or separate documentation must be provided indicating the SSN was matched with the SSA.

**Community Property States include:** Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin

Mortgages in the name of the non-borrowing spouse (the person named on the Note is not our borrower) must be verified as paid as agreed. Any delinquency on the mortgage history in the most recent 12 months must be evaluated when determining the credit worthiness of the borrower.

FHA also expects the underwriter to identify and document that the subject property will be the borrower and the non-borrowing spouse's primary residence.

For more information, please see [FHA Policy Limiting the Number of Mortgages per Borrower](#).

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## *Electronic Signatures*

MiMutual can accept eSigned origination documents (application, application disclosures, etc).

All loan submissions using eSign must include a Disclosure Tracking Summary or Disclosure Tracking Detail. If the Disclosure Tracking Detail indicate that disclosures were either not delivered in a timely manner to ensure compliance with federal and state regulations, or not in compliance with the eSign Act, the loan is ineligible for delivery to MiMutual.

### **Ineligible Documents for eSignature**

The following documents require wet signatures:

- Any closing documents or documents that require notarization or witnesses, including Power of Attorney
- SSA-89

## *Trusts*

Living (“inter vivos”) trusts must comply with local state regulations and the following requirements. To be eligible for financing, the borrower must be:

- The settlor, or the person who created the trust, and
- The beneficiary, or the person who is designated to benefit from the trust, and
- The trustee or the person who will administer the trust for the benefit of the beneficiary, the borrower

The trust must provide reasonable means to assure that MiMutual will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property.

### **Eligible Borrowers**

- One or more borrowers with one living trust, **or**
- Two or more borrowers with separate living trusts, **or**
- Multiple borrowers with one or more holding title as an individual and one or more holding title as a living trust

### **Eligible Properties**

- 1-4 unit primary residences

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**Required Documentation**

- Attorney’s Opinion Letter from the borrower’s attorney, verifying all of the following:
  - The trust was validly created and is duly existing under applicable law,
  - The trust is revocable,
  - The borrower is the settlor of the trust and the beneficiary of the trust
  - The trust assets may be used as collateral for a loan,
  - The trustee is:
    - Duly qualified under applicable law to serve as trustee,
    - Is the borrower,
    - Is the settlor,
    - Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets
- Complete copy of the trust documents certified by the borrower to be accurate, **OR** a copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements

**Exception for Trust Certificate Authorized States**

In lieu of the Attorney’s Opinion letter and copies of trust documents, the title company Trust Certification is acceptable for the following states:

Alabama	Kansas	New Mexico	Tennessee
Arizona	Maine	North Carolina	Texas
Arkansas	Michigan	Ohio	Vermont
California	Minnesota	Oregon	Virginia
District of Columbia	Missouri	Pennsylvania	Washington
Idaho	New Hampshire	South Carolina	Wyoming

\*The same terms and conditions apply as shown above for the Attorney’s Opinion.

**Other Title and Closing Requirements**

- The title to the property is vested in the trustee on behalf of the trust (or such other customary practices),
- Title binder may not contain any exceptions to coverage based on the mortgaged property being held by the living trust,
- The Note must be executed individually by the settlor and by the trustee on behalf of the trust. The Revocable Trust Rider must be used with the mortgage or Deed of Trust
- The date of the trust must be reflected on the Note as part of the description below the Trustee’s signature (i.e. Jane Doe, Trustee of the Jane Doe Trust dated April 1, 2000)
- The name of the living trust must appear on the security instrument, such as the mortgage, deed of trust, or security deed
- The name of the individual borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner occupant and other borrowers, if any, must also appear on the Note with the trust
- The name of the individual borrower is not required to appear on the property deed or title

**Ineligible**

- Blind Trusts
- Life Estates

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## *LDP/SAM Lists*

MiMutual may not contract with entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs. We will examine HUD's Limited Denial of Participation (LDP) list and the General Service Administration (GSA) Office of Governmentwide Policy's System for Award Management (SAM). This review will be documented in the file and on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). If the name of the borrower, seller (except where selling the principal residence), listing or selling real estate agent, loan originator, loan processor, underwriter, appraiser, 203(k) Consultant, closing agent, title company, TPO, or contractor appears on either list, the application is not eligible.

The LDP list may be checked by going to [https://www5.hud.gov/ecpcis/main/ECPCIS\\_List.jsp](https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp), and the SAM list by going to <https://www.sam.gov/portal/public/SAM/>, or both may be checked by logging onto FHA Connection.

## *Requirements for Requesting an FHA Case Number*

- Case numbers can only be requested for an active loan application with a valid property (cannot be ordered for fictitious properties or properties that are "to be determined").
- MiMutual is now required to certify at the time of requesting a case number that we have an active loan application for the subject borrower and property.
- The borrower's name and social security number are to be provided for all borrowers for FHA existing and new construction (i.e. proposed construction and existing construction less than one year old).

## *FHA Case Number Assignment Cancellation*

Generally speaking, case numbers will remain with the property. Should a sale fail to close, the lender should update the borrower information if originating a new loan for subsequent purchasers, or transfer the case number to a new lender (if requested). Case numbers will not be canceled to facilitate obtaining a new appraisal prior to its expiration.

MiMutual may request cancellation of a case number by submitting a request to HUD. A case number will be cancelled only if:

- An appraisal has not been completed and the borrower will not close the loan as an FHA loan, OR
- The FHA mortgage insurance will not be sought, OR
- The appraisal has already expired.

MiMutual must submit a request for cancellation to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov) using the [Case Cancellation Request Form](#).

FHA systems will automatically cancel any uninsured case number where there has been no activity for 6 months if one of the following actions is not performed as a last action:

- Appraisal information entered;
- Firm Commitment issued by FHA;
- Insurance application received and subsequent updates; or
- Notices of Return (NOR) or resubmissions.

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Last Action Taken **does not** include updates to borrower names and/or property address, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium (UFMIP).

To prevent automatic cancellation of case numbers for which mortgage insurance will be sought (for closed loans), lenders must enter appraisal information, successfully transmit the insurance application, etc.

**NOTE:** *In situations where duplicate case numbers are issued, in order to obtain mortgage insurance, MiMutual will cancel one of the case numbers and not wait for automatic case number cancellation.*

### **Reinstating FHA Case Numbers**

Case numbers that were automatically cancelled will only be reinstated if MiMutual provides evidence that the subject mortgage closed prior to cancellation of the case number, such as a Settlement Statement / Closing Disclosure or similar legal document.

A reinstatement of a cancelled case number may be requested by submitting a request to the FHA Resource Center ([answers@hud.gov](mailto:answers@hud.gov)) using the [Case Reinstatement Request](#) Form.

## **CAIVRS**

HUD's CAIVRS is a Federal government-wide repository of information on those individuals with delinquent or defaulted Federal debt and on those for whom a payment of an insurance claim has occurred. The broker must obtain a CAIVRS for all borrowers via FHA Connection and document the findings on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on his or her behalf, the borrower is not eligible except as described below.

Exceptions to this rule may be granted under the following situations:

### **Assumptions**

If the borrower sold the property, with or without a release of liability, to an individual who subsequently defaulted, the borrower is eligible, provided he/she can prove the loan was not in default at the time of the assumption.

### **Divorce**

A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. A mortgage history must be provided to evidence the mortgage was paid as agreed prior to the divorce or legal separation. However, if a claim was paid on a mortgage in default prior to the divorce, the borrower is not eligible.

### **Bankruptcy**

When the property was included in a bankruptcy that was caused by documentable extenuating circumstances, the borrower may be eligible if the borrower meets the bankruptcy requirements for reestablished good credit. An elapsed period of less than two years, but not less than 12 months may be acceptable.

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## *Debt-to-Income Ratios*

Ratios are used to determine whether the borrower can reasonably be expected to meet the expenses involved in home ownership, and otherwise provide for the family. Two ratios must be computed:

### **Mortgage Payment Expense to Effective Income (the Housing Ratio)**

If the total mortgage payment (principal and interest, escrow deposits for real estate taxes, hazard insurance, the mortgage insurance premium, homeowners' association dues, ground rent, special assessments, and payments for any acceptable secondary financing) on a manually underwritten mortgage does not exceed 31% of the gross effective income, the relationship of the mortgage payment to income is considered acceptable. Manually underwritten loans exceeding 31% may be acceptable if compensating factors are documented within the loan file. Typically, for borrowers with limited recurring expenses, greater latitude is permissible on this ratio than on the total fixed payment ratio (DTI).

### **Total Fixed Payment to Effective Income (the Debt Ratio)**

If, on a manually underwritten loan, the total of the mortgage payment and all recurring charges does not exceed 43% of the gross effective income, the relationship of total obligations to income is considered acceptable. A ratio exceeding 43% may be acceptable if compensating factors are documented within the loan file.

## *FHA Policy Limiting the Number of Mortgages per Borrower*

FHA will only permit a borrower to have ownership interest in one (1) FHA-insured mortgage. There are certain situations in which FHA will allow a borrower to obtain an additional mortgage with FHA-insured financing. Considerations in determining the eligibility of a borrower for one of the exceptions below include:

- The length of time the borrower has owned their current residence; and
- The circumstances that compel the borrower to purchase another residence with an FHA-insured mortgage.

In all cases other than the [exceptions](#) listed below, the borrower is not eligible to acquire another FHA-insured mortgage until he/she has either:

- Paid off the FHA-insured mortgage on the current residence, or
- Sold the current residence

Mortgages in the name of the non-borrowing spouse (the person named on the Note is not our borrower) must be verified as paid as agreed. Any delinquency on the mortgage history in the most recent 12 months must be evaluated when determining the credit worthiness of the borrower.

FHA also expects the underwriter to identify and document that the subject property will be the borrower and the non-borrowing spouse's primary residence.

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## **Exceptions**

### ***Relocation***

A borrower may be eligible to obtain another FHA mortgage without being required to sell an existing property with an FHA-insured mortgage if the borrower is:

- Relocating or has relocated for an employment-related reason, **and**
- Establishing or has established a new principal residence in an area more than 100 miles from the borrower's current principal residence.

If the borrower moves back to the original area, the borrower is not required to live in the original house, and may obtain a new FHA-insured mortgage on a new principal residence, provided the relocation meets the two requirements above.

### ***Increase in Family Size***

A borrower may be eligible to obtain another FHA mortgage without being required to sell an existing property with an FHA-insured mortgage if the number of **legal** dependents increases to the point that their present house no longer meets the family's needs. The borrower must provide satisfactory evidence:

- Of the increase in dependents and the current property's failure to meet the family needs, and
- The LTV ratio based on the outstanding mortgage balance and a current appraisal equals 75% or less. If it does not, the borrower must pay down the balance to 75% LTV or less.

### ***Vacating a Jointly-Owned Property***

A borrower may be eligible for another FHA mortgage if he/she is vacating (with no intent to return) a residence that will remain occupied by a co-borrower such as in the case of a divorce situation (the final Divorce Decree must be provided)

### ***Non-Occupying Co-Borrower***

A borrower may be qualified for an FHA-insured mortgage on his/her own principal residence even if he/she is a non-occupying co-borrower with a family member on the family member's primary residence (documentation the borrower is a Non-Occupant Co-Borrower is required).

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## *Solar Leases and Power Purchase Agreements*

These are agreements that are similar to renting a solar panel system. Under these arrangements, the solar leasing company owns and maintains the solar panel system.

These differ from PACE/Hero loans as they are not collected as special assessments by the taxing authority. Instead, the borrower pays the leasing company directly and generally places a lien (UCC filing) on title.

### **Common terms included in Solar Leases & PPAs:**

Term Length: Residential solar leases are usually for 20 to 25 years.

Performance & Maintenance: The leasing company will monitor the system's performance to ensure that it is operating correctly for the duration of the lease. They are also responsible for maintaining and repairing it, although solar panels require little to no maintenance over their lifetime.

Buying the System: The solar panel system can be bought at any time during the lease term, at the price defined in the contract or its fair market value, whichever is higher.

Selling the Home: If the property is being sold, the remainder of the lease can be transferred to the homebuyer, or the system can be bought from the leasing company by the seller and included in the sale of the property.

At the End of the Term: When the agreement ends, the system can either be bought outright, the leasing company can remove it, or the system can be left in place and the agreement renewed with the owner.

When a property has an existing Solar Lease or PPA that is not being paid off, the following requirements must be met in addition to the standard agency requirements:

- The solar panels may not be included in the appraised value of the property, however the appraiser must comment regarding the existence.
- The property must maintain access to a conventional source of electric power that meets market standards.
- The monthly lease payment is not required to be included in the debt-to-income (DTI) ratio calculation.
- All liens must be subordinated to the new mortgage. In lieu of subordination, the lien may be terminated and re-recorded after the new mortgage has been recorded to ensure MMI has first lien position. Defer to the title company as to how they will ensure MMI's first lien position.

The complete Power Purchase Agreement must be reviewed in ALL circumstances. The agreement must not contain any requirements for credit qualifying upon transfer – it must be transferrable without regard to the credit of the transferee. Additional guidance regarding these transactions is available within the [4000.1](#) and should be reviewed in detail to ensure all requirements are met.

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## Credit/Income Qualifying Streamline Refinances

*Streamline refinances may be used when the proceeds of the mortgage are used to extinguish an existing FHA-insured first mortgage lien. MiMutual must manually underwrite all streamline refinance transactions.*

### Maximum Mortgage Amount Calculation

The maximum base loan amount is:

- The lesser of:
  - The outstanding principal balance of the existing mortgage as of the month prior to mortgage disbursement; plus
    - Interest due on the existing mortgage; and
    - MIP due on existing mortgage; or
  - The original principal balance of the existing mortgage (including financed UFMIP);
- Less any refund of UFMIP (if financed in original mortgage)

Streamline refinances are not subject to County Loan Limits; however, the *total* loan amount for the new FHA-insured mortgage must never exceed the original principal balance of the existing FHA-insured mortgage **if the new total loan amount exceeds the County Loan Limit**. [High Limit Area Loans](#) (loan amounts exceeding \$424,100) are permitted.

- For case numbers assigned on/after January 1, 2018, the maximum loan amount is \$453,100

**NOTE:** *The appraised value reflected on the Refinance Authorization screen must be used to determine LTV/CLTV as well as the remaining monthly MIP term, and to ensure the monthly payment stream is being calculated accurately.*

### UFMIP Refunds

If the borrower is refinancing their current FHA-insured mortgage to another FHA-insured mortgage within 3 years, a refund credit is applied to reduce the amount of the UFMIP paid on the refinanced mortgage.

A Refinance Authorization must be obtained from FHAConnection on all FHA-to-FHA refinances.

#### **Refund Selection**

On FHA to FHA refinances (including streamlines), the MIP Refund from the Refinance Authorization screen will be selected based on the month of disbursement, not closing. For example, if a loan closes in June but does not disburse until July, the July MIP Refund will be credited back to the borrower at closing.

#### **Refund Amount Calculation**

On any refinance where the MIP refund exceeds the Upfront MIP required on the new loan, the overage will be refunded directly to the borrower from HUD. The lesser of the MIP refund or the new upfront MIP should be subtracted from the unpaid principal balance before calculating the new mortgage amount. See our [FHA Streamline Maximum Mortgage Worksheet](#) located on our website.

**NOTE:** *The UFMIP credit must be applied on all FHA to FHA refinances (not just streamlines).*

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## *Occupancy Requirements*

Streamline refinances may be used for principal residences, HUD-approved secondary residences, or non-owner occupied properties.

### **Primary Residence**

MiMutual must review the borrower's employment documentation or obtain utility bills to evidence that the borrower currently occupies the property as their principal residence.

### **Second Home**

MiMutual must obtain evidence that the secondary residence has been approved by the Jurisdictional HOC.

### **Investment Property**

MiMutual must process the streamline refinance as a non-owner occupied property if evidence that the borrower occupies the property either as a principal or secondary residence cannot be obtained.

**NOTE:** *Non-owner occupied properties and HUD-approved secondary residences are only eligible for streamline refinancing into fixed rate mortgages.*

## *Underwriting and Eligibility Criteria*

### **Seasoning**

On the date of the FHA Case Number Assignment:

- Evidence must be provided that the last six consecutive monthly payments (at a minimum) on the FHA-insured mortgage being refinanced have been made, beginning with the payment on the first payment due date
- At least six full months must have passed since the first payment due date of the refinanced mortgage, with the first payment due date of the new refinance loan occurring no earlier than 210 days after the first payment due date of the loan being refinanced, and
- If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption

If any of the above criteria are not met, the loan is not eligible for a streamline refinance (may be underwritten as a standard rate/term loan).

### **Qualification Requirements**

All streamlines will be credit/income qualified, and must meet all requirements of Manual Underwriting per the 4000.1, except for any requirements for appraisals or LTV calculations.

### **Funds to Close**

Borrowers are required to provide evidence of sufficient funds to close. This can be documented with either a VOD or a complete copy of borrower's most recent bank statement.

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**TOTAL Scorecard / DU**

TOTAL Scorecard/DU should not be used on a Streamline Refinance transaction, as the results are considered invalid. FHA Streamline refinance loans that have been run through TOTAL Scorecard/DU will not be considered ineligible, however they will be underwritten according to manual guidelines and the DU findings will not be reviewed.

**Additional Underwriting and Eligibility Criteria**

- The mortgage being refinanced must be current for the month due. For example, if the borrower is closing in April, the March payment must have been made within the month of March, and the April payment must be made by closing. The borrower has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing (as long as the loan disburses in April also).
- For all mortgages on all properties with less than six months of mortgage payment history, the borrower must have made all payments within the month due. For all mortgages on all properties with greater than six months of mortgage payment history, the borrower must have made all mortgage payments within the month due for the six months prior to case number assignment and have no more than one 30-day late payment for the previous six months. The borrower must have made the payments for all mortgages secured by the subject property within the month due for the month prior to disbursement.
- Existing subordinate liens, including credit lines, regardless of when taken, may remain outstanding, but subordinate to the FHA-insured mortgage, with no maximum combined loan-to-value (CLTV) ratio. The CLTV is based on the original appraised value of the property (see refinance netting authorization). If the subordinating second lien is a HELOC, the maximum accessible credit line must be subordinated and used to calculate the CLTV.
  - New subordinate financing is permitted only where the proceeds of the subordinate financing are used to:
    - Reduce the principal amount of the existing FHA-insured mortgage, or
    - finance the origination fees, other closing costs, or discount points associated with the refinance.
- The mortgage being streamlined must be FHA-insured as evidenced by an FHA Connection Case Query on the current mortgage.
- FHA Secure is not eligible for a streamline refinance (must be done as a standard rate/term refinance).
- The borrower(s) cannot have more than four properties financed including the subject property.

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**At-a-Glance Eligibility**

This subsection provides a snapshot of the eligibility requirements for streamline refinance loans. For further direction/detail on these criteria, refer to the applicable sections of this document, Agency guidance, or the GNMA APM.

- The borrower has made at least six consecutive monthly payments on the initial mortgage beginning with the payment made on the first payment due date; <sup>1</sup>
- all mortgage payments must have been paid within the month due; <sup>2</sup>
- the mortgage payment for the month prior to disbursement of the new mortgage must have been made; <sup>2</sup>
- there is no more than one 30-day late payment for the previous six months for all mortgages on the subject property; <sup>2</sup>
- on the date of the FHA case number assignment at least 210 days must have passed from the closing date of the mortgage that is being refinanced; <sup>2</sup> and
- the new mortgage must provide the borrower a net tangible benefit, which is:
  - a reduced combined rate,
  - a reduced term, and/or
  - a change from an ARM to a fixed rate mortgage that results in a financial benefit to the borrower;
  - a net tangible benefit from a reduced term is received if:
    - the remaining amortization period of the existing mortgage is reduced;
    - the new interest rate does not exceed the current interest rate; and
- the combined principal, interest and MIP payment of the new Mortgage does not exceed the combined principal, interest and MIP of the refinanced Mortgage by more than \$50. <sup>3</sup>

<sup>1</sup>Ginnie Mae APM 17-06

<sup>2</sup>FHA 4000.1 II.A.8.d.vi.(C)(b)

<sup>3</sup>FHA 400.1 II.A.8.d.vi.(C)(4)(c)

***Condominium Project Approval***

Does not apply to streamlines without appraisals. If approval of a condominium project has been withdrawn, FHA will insure only streamlines without appraisals for that project.

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### Net Tangible Benefit

A Net Tangible Benefit is a reduced Combined Rate, a reduced term, and/or a change from an ARM to a fixed rate mortgage that results in a financial benefit to the borrower.

Combined Rate refers to the interest rate on the mortgage plus the Mortgage Insurance Premium rate.

It must be determined that there is a Net Tangible Benefit to the borrower meeting the standards in the chart below for all Streamline Refinance Transactions.

Net Tangible Benefit Guidance				
From	To	Fixed Rate New Combined Rate	One Year ARM New Combined Rate	Hybrid ARM New Combined Rate
Fixed Rate		At least 0.5 percentage points below the prior Combined Rate	At least 2 percentage points below the prior combined rate	At least 2 percentage points below the prior combined rate
Any ARM with Less Than 15 Months to Next Payment Change Date		No more than 2 percentage points above the prior Combined Rate	At least 1 percentage point below the prior Combined Rate	At least 1 percentage point below the prior Combined Rate
Any ARM with Greater Than or Equal To 15 Months to Next Payment Change Date		No more than 2 percentage points above the prior Combined Rate	At least 2 percentage points below the prior Combined Rate	At least 1 percentage point below the prior Combined Rate

### Reduction in Term

The Net Tangible Benefit Test is met if:

- The remaining amortization period of the existing mortgage is reduced;
- The new interest rate does not exceed the current interest rate; and
- The combined principal, interest, and MIP payment of the new mortgage does not exceed the combined principal, interest, and MIP of the refinanced mortgage by more than \$50

### Maximum Term

The maximum term is limited to **the lesser of:**

- The remaining term of the existing mortgage plus 12 years, or
- 30 years

### “No Cost” Refinances

“No cost” refinances in which the borrower receives a Lender Credit to defray the borrower’s closing costs and/or prepaid items **are permitted**.

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### *Cash Back to Borrower at Closing*

At closing, the borrower may not receive cash back in excess of \$500.

Cash back to the borrower resulting from the refund of borrower's unused escrow balance from the previous mortgage must not be considered in the \$500 cash limit, whether received at or subsequent to mortgage disbursement.

### *Adding Individuals to Title/Mortgage*

Individuals may be added to title/mortgage on a streamline refinance and must credit qualify. At a minimum, one borrower that was obligated under the Note being streamlined must be a borrower on the new loan.

### *Deleting an Individual from Title/Mortgage*

All remaining borrowers must credit/income qualify.

### *Section 203(k) to Section 203(b)*

- All work must be complete, there must be a fully executed Certificate of Completion, and the rehabilitation escrow account must have been closed with a final release (as evidenced by a case query/case status from FHA Connection or Neighborhood Watch).
- The Upfront MIP and monthly (annual) MIP will be applied to the new loan.

**NOTE:** *This is also applicable to Condominiums.*

### *Maximum Qualifying Ratios*

MiMutual will allow ratios up to 31%/43% (per manual underwriting guidelines), which may be exceeded with compensating factors.

### *CAIVRS*

A CAIVRS authorization **is not** required on an FHA Streamline Refinance transaction.

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## Documentation Requirements

All Streamlines are credit/income qualified. The below documentation **must be provided** at time of submission to underwriting (see [Submission Sheet](#) found on MiMutual's website)

### Application Documents

- FHA Loan Underwriting Transmittal Summary (HUD 92900-LT).
- Uniform Residential Loan Application (URLA), fully completed.
- FHA Addendum to URLA (HUD 92900-A)

### Credit Documents

- Mortgage Only credit report for all borrowers. Borrower(s) must have a minimum middle credit score of 580.
- Mortgage payment history (if not provided on credit report)
- Mortgage payoff statement reflecting the mortgage is current. \*MiMutual must have this in order to calculate the new mortgage amount – loans **cannot** be underwritten without the payoff statement
- Copy of the original Note for the current mortgage to verify the P&I payment (needed to determine Net Tangible Benefit (per guidance effective with Case Numbers assigned April 15, 2011 and after), the borrower(s), and the terms/conditions of the mortgage being paid off. If the current Note cannot be provided, similar documentation with the same information must be provided, such as a mortgage statement.
- Evidence of social security number for all borrowers.

### Income Documents

Manual underwriting guidelines apply. A fully executed 4506T is always required to obtain the most recent 2 years W2s and 1040s.

### Assets

Sufficient funds to close, in excess of the total mortgage payment of the new mortgage, must be documented in accordance with [Source of Funds](#).

### FHA Documents

- Evidence [LDP/SAM](#) lists were checked to verify all parties associated with the transaction are not listed.
- Evidence of previous FHA Case Number (required to order the new Case Number Assignment)
- For TPOs that do not have their DE Approval, MiMutual will obtain:
  - FHA Case Number Assignment \*MiMutual must have an active loan for the current borrower, with a valid property address (can no longer request Case Number Assignments on TBD properties)
  - Refinance Authorization.

**NOTE:** The appraised value reflected on the Refinance Authorization screen **must** be used to determine LTV/CLTV. This will also ensure that the monthly payment stream is being calculated accurately.

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## Non-Credit/Income Qualifying Streamline Refinances

*Streamline refinances may be used when the proceeds of the mortgage are used to extinguish an existing FHA-insured first mortgage lien. MiMutual must manually underwrite all streamline refinance transactions. Non-Credit/Income Qualifying Streamlines are only permitted in accordance with the requirements described in this chapter. If the loan does not meet the criteria for either type of streamline refinance, please see the [No Cash Out Refinances](#) chapter for details.*

### *Borrower Eligibility*

A borrower is eligible for a streamline refinance without credit/income qualification if all borrowers on the existing mortgage remain as borrowers on the new mortgage. Mortgages that have been assumed are eligible provided the previous borrower was released from liability.

#### **Exception**

A borrower on the mortgage to be paid may be removed from title and mortgage on a new loan in cases of divorce, legal separation, or death when:

- The divorce decree or legal separation agreement awarded the property and responsibility for payment to the remaining borrower, if applicable; and
- The remaining borrower can demonstrate that they have made the mortgage payments for a minimum of six months prior to case number assignment

**NOTE:** *At least one borrower from the existing mortgage must remain as a borrower on the new mortgage*

### *Credit/Income Qualifying is Required*

- When a change in the mortgage term will result in an increase in the mortgage payment of more than 20% (for example, when refinancing from an ARM to a fixed rate).
- When deletion of a borrower(s) will trigger the due-on-sale clause (instances not caused by divorce or devise/decent).
- Following the assumption of a mortgage that
  - Occurred less than 6 months previously, **and**
  - Does *not* contain restrictions (i.e., the due-on-sale clause) limiting assumption only to a creditworthy borrower, or
- Following the assumption of a mortgage that
  - Occurred less than six months previously, **and**
  - Did *not* trigger the transferability restriction (that is, due-on-sale clause), such as in a property transfer resulting from a divorce decree or by devise or descent

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## Maximum Mortgage Amount Calculation

The maximum FHA insurable mortgage is the outstanding principal balance minus the applicable refund of the UFMIP plus the new UFMIP. Streamline refinances are not subject to County Loan Limits; however, the *total* loan amount for the new FHA-insured mortgage must never exceed the original principal balance of the existing FHA-insured mortgage **if the new total loan amount exceeds the County Loan Limit**. [High Limit Area Loans](#) (loan amounts exceeding \$424,100) are permitted.

- For case numbers assigned on/after January 1, 2018, the maximum loan amount is \$453,100

Take the amount of the outstanding principal balance on the existing FHA-insured first lien and then subtract any refund of the UFMIP and add the new UFMIP. Closing costs, pre-paid expenses and discount points, if any, **may not** be included in the new mortgage. If the borrower has agreed to pay closing costs, pre-paid expenses and discount points, the assets to pay these costs must be verified.

The amount of the outstanding principal balance may include the interest charged by the servicing lender and up to two months of prorated MIP, but may not include delinquent interest, fax fees, late charges or escrow shortages.

**NOTE:** *The appraised value reflected on the Refinance Authorization screen must be used to determine LTV/CLTV as well as the remaining monthly MIP term, and to ensure the monthly payment stream is being calculated accurately.*

## UFMIP Refunds

If the borrower is refinancing their current FHA-insured mortgage to another FHA-insured mortgage within 3 years, a refund credit is applied to reduce the amount of the UFMIP paid on the refinanced mortgage.

A Refinance Authorization must be obtained from FHAConnection on all FHA-to-FHA refinances.

### **Refund Selection**

On FHA to FHA refinances (including streamlines), the MIP Refund from the Refinance Authorization screen will be selected based on the month of disbursement, not closing. For example, if a loan closes in June but does not disburse until July, the July MIP Refund will be credited back to the borrower at closing.

### **Refund Amount Calculation**

On any refinance where the MIP refund exceeds the Upfront MIP required on the new loan, the overage will be refunded directly to the borrower from HUD. The lesser of the MIP refund or the new upfront MIP should be subtracted from the unpaid principal balance before calculating the new mortgage amount. See our [FHA Streamline Maximum Mortgage Worksheet](#) located on our website.

**NOTE:** *The UFMIP credit must be applied on all FHA to FHA refinances (not just streamlines).*

## Minimum Credit Score

A middle score of 580 is required for all borrowers.

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## *Occupancy Requirements*

Streamline refinances may be used for principal residences, HUD-approved secondary residences, or non-owner occupied properties.

### **Primary Residence**

MiMutual must review the borrower's employment documentation or obtain utility bills to evidence that the borrower currently occupies the property as their principal residence.

### **Second Home**

MiMutual must obtain evidence that the secondary residence has been approved by the Jurisdictional HOC.

### **Investment Property**

MiMutual must process the streamline refinance as a non-owner occupied property if evidence that the borrower occupies the property either as a principal or secondary residence cannot be obtained.

**NOTE:** *Non-owner occupied properties and HUD-approved secondary residences are only eligible for streamline refinancing into fixed rate mortgages.*

## *Underwriting and Eligibility Criteria*

### **Seasoning**

On the date of the FHA Case Number Assignment:

- Evidence must be provided that the last six consecutive monthly payments (at a minimum) on the FHA-insured mortgage being refinanced have been made, beginning with the payment on the first payment due date
- At least six full months must have passed since the first payment due date of the refinanced mortgage, with the first payment due date of the new refinance loan occurring no earlier than 210 days after the first payment due date of the loan being refinanced, and
- If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption

If any of the above criteria are not met, the loan is not eligible for a streamline refinance (may be underwritten as a standard rate/term loan).

### **Funds to Close**

Borrowers are required to provide evidence of sufficient funds to close. This can be documented with either a VOD or a complete copy of borrower's most recent bank statement.

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**TOTAL Scorecard / DU**

TOTAL Scorecard/DU should not be used on a Streamline Refinance transaction, as the results are considered invalid. FHA Streamline refinance loans that have been run through TOTAL Scorecard/DU will not be considered ineligible, however they will be underwritten according to manual guidelines and the DU findings will not be reviewed. Follow MiMutual Streamline guidelines for documentation and approval requirements.

**Additional Underwriting and Eligibility Criteria**

- The mortgage being refinanced must be current for the month due. For example, if the borrower is closing in April, the March payment must have been made within the month of March, and the April payment must be made by closing. The borrower has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing (as long as the loan disburses in April also).
- The borrower must have made all mortgage payments for all mortgages on the subject property within the month due for the six months prior to case number assignment, and have no more than one 30-day late payment for the previous six months for all mortgages on the subject property. The borrower must have made the payments for all mortgages secured by the subject property within the month due for the month prior to mortgage disbursement
- Existing subordinate liens, including credit lines, regardless of when taken, may remain outstanding, but subordinate to the FHA-insured mortgage, with no maximum combined loan-to-value (CLTV) ratio. The CLTV is based on the original appraised value of the property (see refinance netting authorization). If the subordinating second lien is a HELOC, the maximum accessible credit line must be subordinated and used to calculate the CLTV.
  - New subordinate financing is permitted only where the proceeds of the subordinate financing are used to:
    - Reduce the principal amount of the existing FHA-insured mortgage, or
    - Finance the origination fees, other closing costs, or discount points associated with the refinance.
- The mortgage being streamlined must be FHA-insured as evidenced by an FHA Connection Case Query on the current mortgage.
- FHA Secure to Streamline is not eligible for a streamline refinance (must be done as a standard rate/term refinance).
- Primary residences only

*Condominium Project Approval*

Does not apply to streamlines without appraisals. If approval of a condominium project has been withdrawn, FHA will insure only streamlines without appraisals for that project.

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### *Net Tangible Benefit*

A Net Tangible Benefit is a reduced Combined Rate, a reduced term, and/or a change from an ARM to a fixed rate mortgage that results in a financial benefit to the borrower.

Combined Rate refers to the interest rate on the mortgage plus the Mortgage Insurance Premium rate.

It must be determined that there is a Net Tangible Benefit to the borrower meeting the standards in the chart below for all Streamline Refinance Transactions.

<b>Net Tangible Benefit Guidance</b>				
<b>From</b>	<b>To</b>	<b>Fixed Rate New Combined Rate</b>	<b>One Year ARM New Combined Rate</b>	<b>Hybrid ARM New Combined Rate</b>
<b>Fixed Rate</b>		At least 0.5 percentage points below the prior Combined Rate	At least 2 percentage points below the prior combined rate	At least 2 percentage points below the prior combined rate
<b>Any ARM with Less Than 15 Months to Next Payment Change Date</b>		No more than 2 percentage points above the prior Combined Rate	At least 1 percentage point below the prior Combined Rate	At least 1 percentage point below the prior Combined Rate
<b>Any ARM with Greater Than or Equal To 15 Months to Next Payment Change Date</b>		No more than 2 percentage points above the prior Combined Rate	At least 2 percentage points below the prior Combined Rate	At least 1 percentage point below the prior Combined Rate

### Reduction in Term

The Net Tangible Benefit Test is met if:

- The remaining amortization period of the existing mortgage is reduced;
- The new interest rate does not exceed the current interest rate; and
- The combined principal, interest, and MIP payment of the new mortgage does not exceed the combined principal, interest, and MIP of the refinanced mortgage by more than \$50

### *Maximum Term*

The maximum term is limited to **the lesser of:**

- The remaining term of the existing mortgage plus 12 years, or
- 30 years

### *“No Cost” Refinances*

“No cost” refinances in which the borrower receives a Lender Credit to defray the borrower’s closing costs and/or prepaid items **are permitted**.

### *Cash Back to Borrower at Closing*

At closing, the borrower may not receive cash back in excess of \$500.

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## *Adding Individuals to Title/Mortgage*

Individuals may be added to title/mortgage on a streamline refinance without a creditworthiness review. At a minimum, one borrower that was obligated under the Note being streamlined must be a borrower on the new loan.

## *Deleting an Individual from Title/Mortgage*

See [Borrower Eligibility](#) guidance for when borrowers can be removed on a non-credit/income qualifying streamline.

## *Section 203(k) to Section 203(b)*

- All work must be complete, there must be a fully executed Certificate of Completion, and the rehabilitation escrow account must have been closed with a final release (as evidenced by a case query/case status from FHA Connection or Neighborhood Watch).
- The Upfront MIP and monthly (annual) MIP will be applied to the new loan.

**NOTE:** *This is also applicable to Condominiums.*

## *CAIVRS*

A CAIVRS authorization **is not** required on an FHA Streamline Refinance transaction.

## *Documentation Requirements*

The below documentation **must be provided** at time of submission to underwriting.

### **Application Documents**

- FHA Loan Underwriting Transmittal Summary (HUD 92900-LT).
- FHA Addendum to URLA (HUD 92900-A)
- URLA – an abbreviated loan application may be used on non-credit qualifying streamline refinances **only**. The following sections of the 1003 are not to be completed: V (*Monthly Income and Combined Housing Expense Information*), VI (*Assets and Liabilities*), and VIII(k) (*Declarations 'k'*) on an abbreviated URLA, provided all other required information is captured.
- FHA Case Number Assignment reflecting loan as a Streamline and Netting Authorization

**NOTE:** *The appraised value reflected on the Refinance Authorization screen **must** be used to determine LTV/CLTV. This will also ensure that the monthly payment stream is being calculated accurately.*

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**Credit Documents**

- Mortgage-Only credit report from all 3 repositories.
  - The borrower must have made all mortgage payments for all mortgages on the subject property within the month due for the twelve months prior to case number assignment. The borrower must have made the payments for all mortgages secured by the subject property within the month due for the month prior to mortgage disbursement.
- Acceptable Verification of Employment within 10 days of closing. For wage earners, a VVOE is acceptable. For self-employed borrowers, a copy of a current business license, CPA letter, etc will be required.
- Mortgage payoff statement reflecting the mortgage is current. \*MiMutual must have this in order to calculate the new mortgage amount – loans **cannot** be underwritten without the payoff statement
- Copy of the original Note for the current mortgage to verify the P&I payment (needed to determine Net Tangible Benefit), the borrower(s), and the terms/conditions of the mortgage being paid off. If the current Note cannot be provided, similar documentation with the same information must be provided, such as a mortgage statement.
- Evidence of social security number for all borrowers.

**NOTE:** *These loans **will not** require a 4506T to be processed.*

**Assets**

Sufficient funds to close, in excess of the total mortgage payment of the new mortgage must be documented in accordance with [Source of Funds](#).

**FHA Documents**

- Evidence [LDP/SAM](#) lists were checked to verify all parties associated with the transaction are not listed.
- Evidence of previous FHA Case Number (required to order the new Case Number Assignment)
- For TPOs that do not have their DE Approval, MiMutual will obtain:
  - FHA Case Number Assignment \*MiMutual must have an active loan for the current borrower, with a valid property address (can no longer request Case Number Assignments on TBD properties)
  - Refinance Authorization.

**NOTE:** *The appraised value reflected on the Refinance Authorization screen **must** be used to determine LTV/CLTV. This will also ensure that the monthly payment stream is being calculated accurately.*

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## *Subordinate Financing*

A subordinate lien, including a Home Equity Line of Credit (HELOC), regardless of when taken, may remain outstanding, but the entire lien must be subordinated at refinance. If subordinate financing remains in place:

- There is no max CLTV (unlimited)
- The CLTV is based on the original appraised value of the property, and
- Maximum CLTV is calculated by taking the original FHA base loan amount (the original FHA principal balance excluding financed UFMIP), adding all other financed liens still outstanding, and dividing by the appraised value.

**NOTE:** *The maximum accessible credit limit of the existing subordinate lien must be used to calculate CLTV*

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## Good Neighbor Next Door (GNND)

*HUD's Good Neighbor Next Door initiative was designed to encourage renewal of revitalization areas by providing law enforcement officers, firefighters, emergency medical technicians, and teachers an opportunity to purchase homes in these communities. HUD offers a substantial incentive in the form of a discount of 50% from the list price of the home. See the [HUD REO Chapter](#) for further details regarding the GNND program.*

### *Borrower Requirements*

#### **Law Enforcement**

The borrower may participate in the Good Neighbor Next Door program as a law enforcement officer if they are employed full-time by a law enforcement agency of the federal government, a state, or a unit of general local government; and, in carrying out such full-time employment, they are sworn to uphold, and make arrests for violations of, federal, state, county, township, or municipal laws.

#### **Teacher**

The borrower may participate in the Good Neighbor Next Door program as a Teacher if they are employed as a full-time teacher by a state-accredited public school or private school that provides direct services to students in grades pre-kindergarten through 12. In addition, the public or private school where they are employed as a teacher must serve students from the area where the home the borrower is purchasing is located in the normal course of business.

#### **Firefighter/Emergency Medical Technician**

The borrower may participate in the Good Neighbor Next Door program as a Firefighter/Emergency Medical Technician if they are employed full-time as a firefighter or emergency medical technician by a fire department or emergency medical services responder unit of the federal government, a state, or unit of general local government serving the area where the home is located.

### *Property Selection*

Eligible single-family homes (including townhouses and condos) located in [revitalization areas](#) are listed exclusively for sale through the GNND Sales Program. Properties are available for purchase through the program for seven days. Multi-unit properties are not offered through this program.

HUD will not provide any kind of warranty on these properties. All GNND homes are sold "as is".

Listings for each state can be checked [here](#). The borrower should follow the instructions to submit their interest in purchasing a specific home. If more than one person submits on a single home, a selection will be made by random lottery. Borrowers must meet the requirements for a law enforcement officer, teacher, firefighter, or emergency medical technician.

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## **Bid Submission Requirements**

- An Earnest Money Deposit is required in an amount equal to one percent of the list price, but no less than \$500 and no more than \$2,000. HUD considers all offers to be a commitment to purchase a home if the borrower is awarded the sale.
  - If an offer is accepted, the EMD will be credited to the borrower at closing
  - If an offer is rejected, the EMD will be returned to the borrower
  - **EMDs are subject to total forfeiture for failure of the participant to close a sale**
- The purchase price of a GNND property is not negotiable. The borrower must offer the exact HUD list price when bidding on any GNND property. If they are awarded the sale, they will receive a 50% discount off of that list price.

## *Discount from Sales Price*

A discount of 50% off of the list price of the subject property is offered to borrowers who meet the above Borrower Requirements and win the lottery for the home. For example, if HUD lists a home at \$100,000, it can be purchased for \$50,000 provided the borrower occupies the home as their personal residence for the required occupancy period. If the borrower qualifies for any FHA-insured mortgage programs, the required downpayment is only \$100.00 and the closing costs may be financed.

## *Occupancy*

The borrower must live in the home as their sole residence for a full 36 months. The purpose of the program is to strengthen communities by encouraging employed, professional law enforcement officers, teachers, and firefighters/emergency medical technicians to live in the community. The borrower will have 30, 90, or 180 days to move into the home, depending on HUD's determination of the condition of the property and the level of repairs that may be required (if any).

The 30<sup>th</sup>, 90<sup>th</sup>, or 180<sup>th</sup> day is the start date for the occupancy period. The borrower is released from all obligations under this program at the end of the 36<sup>th</sup> month following the start date. HUD views the occupancy obligation seriously, and vigorously pursues violators to the fullest extent of the law.

After the borrower lives in the GNND home for the required 36 months, they can sell the home and keep any equity and/or appreciation.

## **Enforcement**

The borrower must certify that he or she is living in the GNND home as a sole residence at the time of purchase, and each year thereafter. HUD can conduct spot checks to make sure the GNND home is the borrower's sole residence at any time during the 3-year period.

If the borrower fails to honor the 3-year occupancy requirement, HUD can demand repayment of the discounted amount on a prorated basis – 1/36<sup>th</sup> of the discount received for each month that the borrower did not occupy the home. Additionally, in cases of fraud or abuse, HUD may pursue criminal prosecution.

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## *Second Mortgage and Note*

HUD requires the borrower to sign a Second Mortgage and Note on the discounted amount (\$50,000 on a \$100,000 property). No interest or payments are required on this “silent second” mortgage providing the borrower lives in the home for the entire 36 month occupancy period. They may be required to pay a pro-rata portion of the discount to HUD should they fail to fulfill the three year occupancy requirement.

The Note and Mortgage for the silent second (mandatory under the GNND program) are not to be included in the upfront and annual Mortgage Insurance Premium (MIP) associated with the purchase of a GNND property. The upfront and annual MIP should be based on the average outstanding principal obligation of the first mortgage.

## *Additional Eligibility Requirements*

- 203(k) financing can be used to purchase and rehab these homes
- Being a first time homebuyer is **not required** to take advantage of this program. However, the borrower may not own any other residential real property at the time they submit an offer to purchase a home, and for one year previous to that date. For example, if an offer to purchase is submitted on August 1, 2014, the borrower may not have owned a home during the period from July 31, 2013.
- FHA financing is not required. The borrower may choose to use VA or Conventional financing, or cash, to purchase a GNND home
- A real estate agent/broker **must be used** to purchase a GNND home

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# HUD REO Properties

## Overview

HUD Real Estate Owned (REO) Property refers to a one- to four-unit residential property acquired by HUD as a result of a foreclosure or other means of acquisition on an FHA-insured mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the mortgagee.

Through the Property Disposition Insured Sales Program, HUD offers its Real Estate Owned (REO) properties for sale with FHA-insured financing available. Properties must meet the intent of the FHA's Minimum Property Standards (MPS) for existing properties to be eligible for this program.

## Insured HUD REO Property Purchase Programs

### **Section 203(b)**

The HUD REO property meets HUD's Minimum Property Requirements (MPR) in its as-is condition with no repairs, alterations, or inspections required.

### **Section 203(b) with Repair Escrow**

The HUD REO property does not meet HUD's MPR in its as-is condition, but if repairs of no more than \$5,000 are completed, the HUD REO property would meet HUD's MPR. An escrow account to complete the repairs necessary to meet MPR after closing is required.

### **Section 203(k)**

The HUD REO property does not qualify for Section 203(b) or Section 203(b) with Repair Escrow, and is eligible for FHA-insured financing only under Section 203(k).

## Special Sales Incentives

### **Good Neighbor Next Door**

The Good Neighbor Next Door (GNND) sales incentive permits an owner-occupant borrower who is a full time law enforcement officer, teacher, firefighter, or emergency medical technician who meets HUD requirements to purchase a specifically designated HUD REO property located in a HUD-designated revitalization area with FHA-insured financing at a 50% discount from the purchase price. When using FHA-insured financing, the borrower may purchase the HUD REO property with a minimum downpayment of \$100. In addition, the borrower may include in the mortgage amount customary and reasonable closing costs. GNND purchases may be processed as Section 203(b), 203(b) with Repair Escrow, or Section 203(k). See the [Good Neighbor Next Door](#) chapter for further details.

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**\$100 Down**

The FHA \$100 Down HUD REO program is a purchase money loan offered in limited geographic areas to purchasers of HUD REOs. Buyers are only required to make a \$100 down payment and may be eligible for sales incentives provided by HUD. \$100 Down purchases may be processed as Section 203(b), 203(b) with Repair Escrow, or Section 203(k).

**NOTE:** *The \$100 Downpayment Incentive is not available unless it is on the executed sales contract.*

***Eligibility Requirements*****Maximum Loan Amount*****Section 203(b)***

The maximum mortgage amount must be calculated in accordance with the requirements of [Calculating Maximum Mortgage Amount](#), using the LTV ratio of 96.5%.

***Section 203(b) With Repair Escrow***

The mortgage amount must be initially calculated in accordance with the requirements of Section 203(b) above. MiMutual must add to the amount resulting from that calculation the amount of an escrow account for the completion of repairs after closing.

The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10% contingency. The total escrow amount, including the 10% contingency, must not exceed \$11,000. See [Repair Escrow](#) chapter for further details.

***Good Neighbor Next Door*****Discounted Purchase Price**

MiMutual must calculate the discounted purchase price and use that amount as the purchase price in determining the Adjusted Value for a 203(b) transaction or the [Adjusted As-Is Value](#) for a 203(k) transaction.

The discounted purchase price is calculated by reducing the contract sales price on Line 3 of form HUD-9548 by the discount percentage on Line 8 of form HUD-9548. To that, MiMutual must add:

- Sales commissions from Line 6 of form HUD-9548; and
- Any borrower-paid closing costs (including prepaid expenses)

**Section 203(b)**

MiMutual must calculate the maximum mortgage amount by subtracting \$100 from the Adjusted Value.

**Section 203(b) with Repair Escrow**

MiMutual must calculate the maximum mortgage amount by subtracting \$100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed \$11,000.

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***\$100 Down*****Section 203(b)**

MiMutual must calculate the maximum mortgage amount by subtracting \$100 from the Adjusted Value.

**Section 203(b) with Repair Escrow**

MiMutual must calculate the maximum mortgage amount by subtracting \$100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed \$11,000.

***Section 203(k)***

MiMutual must calculate the maximum mortgage amount in accordance with the requirements of Section 203(k) Maximum Mortgage Amounts for Purchases ([Limited](#) or [Standard](#)).

**GNND and \$100 Down**

The maximum mortgage amount that FHA will insure on a GNND 203(k) purchase is the lesser of:

- the [Adjusted As-is Value](#), plus:
  - Financeable repair and improvement costs, for Standard 203(k) or Limited 203(k);
  - Financeable mortgage fees, for Standard 203(k) or Limited 203(k);
  - Financeable contingency reserves for Standard 203(k) or Limited 203(k); and
  - other purchaser-paid closing costs, including pre-paid expenses;
  - minus \$100; or
  - 110 percent of the After Improved Value (100 percent for site condominiums), minus \$100; or
  - the [Nationwide Mortgage Limits](#)

**Loan Terms**

Fixed rate terms and 5/1 ARMs available

**Borrowers**

- Individuals only.
- Nonprofit organizations and government agencies are **not** eligible.

**Underwriting**

All FHA HUD REO loans will be underwritten according to standard FHA guidelines. Loans may be run through TOTAL Scorecard using Fannie Mae's Desktop Originator/Underwriter or manually underwritten. Loan may receive an "Ineligible" for mortgage amount calculation if utilizing \$100 down and/or if a repair escrow is financed into the loan amount.

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## HUD Marketing Approaches

Each HUD REO property will be offered for sale using one of the approaches listed below. The appraiser must make a Statement of Insurability in the "Comments" section of the appraisal report.

### **Insurable**

Properties marketed as "Insurable" are those that meet FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction at the time of the appraisal, in "as-is" condition, without repairs being necessary.

### **Insurable with Repair Escrow**

A property that requires no more than \$10,000 in repairs to meet FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS), as estimated by the Property Condition Report (PCR) and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition with FHA mortgage insurance under the 203(b) with Repair Escrow program, provided the purchaser establishes a cash escrow to ensure the completion of the required repairs. Purchasers are permitted to include in their mortgage an amount equal to 110 percent of the estimated cost of the repairs.

### **Uninsurable**

Properties offered for sale "Uninsurable" do not meet, in their "as-is" condition, FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) and the cost of repairs identified by the appraiser to meet MPR or MPS are estimated to exceed \$10,000. **Uninsurable properties are only eligible for Section 203(k) financing.**

## Review of the HUD Sales Contract

Form HUD-9548, *Sales Contract Property Disposition Program*, and any applicable addenda must be obtained, which will establish the purchase price, price discount, eligibility for GNND and eligibility for \$100 Down.

If the contract is not complete, if there are questions about the terms or conditions, or if the contract must be amended as a condition of loan approval, the M&M contractor should be contacted.

The "Radon Gas and Mold Notice and Release Agreement" must be included with sales contract and be fully executed by all purchasers of the subject property.

### **Contract Sales Terms**

Line 4 of the sales contract will specify the Insured HUD REO Property Purchase Program under which the Borrower is applying, the downpayment, and the mortgage amount.

Regardless of the Insured HUD REO Property Purchase Program entered on Line 4 of form HUD-9548, MiMutual must determine the eligibility of the property, the eligibility of the borrower, and the specific insured HUD REO Property Purchase Program that must be used to finance the purchase.

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**Good Neighbor Next Door**

Where the borrower is approved for the GNND sales incentive, Line 8 will specify the discount that will be applied to the purchase price on Line 3. The amount of the cash downpayment specified on Line 4 will be \$100.

**\$100 Down**

Where the borrower has been approved for the \$100 Down sales incentive, the amount of the cash downpayment specified on Line 4 will be \$100.

**Closing Costs and Sales Commissions Paid by HUD**

The amount on Line 5 specifies the amount of closing costs that HUD will pay on behalf of the borrower. The amounts on Line 6a and 6b represent the sales commissions HUD will pay to the selling and listing broker.

Contributions by HUD toward the borrower's closing costs are not defined as Interested Party Contributions or Inducements to Purchase.

***Case Number Processing***

A new FHA case number must be obtained for loan applications with FHA-insured financing involving REO properties. The Property Disposition Program Sales Contract (purchase agreement) will indicate the current FHA Case Number; however, it will be short the last number. In order to properly obtain a new FHA Case Number assignment, the complete 10-digit FHA Case Number will have to be obtained by performing a "Case Query" of the property address in FHA Connection. If the complete 10-digit Case Number is unable to be obtained, contact the M&M contractor or the field office where the property is located.

**NOTE:** *The HUD sales contract indicates Section 203(b); however, when obtaining the FHA Case Number Assignment, input the proper ADP code in FHA Connection for the appropriate Section of the National Housing Act (ex: 703 for fixed rate, 734 for condominiums, 729 for ARMs, etc).*

When entering the new case information in FHA Connection, select "Real Estate Owned with Appraisal" for **processing type**. See [Appraisals](#) for further information.

When processing, the Computerized Homes Underwriting Management System (CHUMS) will require a response to the question "Was this case previously sold as a Property Disposition?"

- Always check **YES** when processing a loan application for FHA-insured financing on an REO property.
- The mortgagee should complete the "Previous Case Number" field with the 10-digit FHA Case Number obtained from the Case Query. This field is designed to track REO properties sold with FHA-insured financing and whether they are subsequently sold by the individuals who purchased them from HUD.
- If entry of the previous case number triggers an error message, the mortgage broker should request that the processing and underwriting division of their Homeownership Center (HOC) post the number in the CHUMS property disposition file.

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## Inspection Requirements

### **Appraisals**

Appraisals must be ordered in accordance with the requirements of the [Appraisals](#) section of the Collateral chapter (and further, any additional appraisal requirements for a [Limited 203\(k\)](#) or a [Standard 203\(k\)](#)).

MiMutual must review the appraisal and property conditions in accordance with the requirements of Underwriting the Property in the [4000.1](#).

The mortgage broker should contact the M&M contractor to obtain a copy of the Property Condition Report (PCR).

Appraisals have a validity period of 120 days. A valid HUD REO sales contract must be ratified within 120 days of the appraisal effective date. As long as the sales contract is executed by HUD prior to the expiration of the appraisal, the validity period may be extended an additional 30 days (in total, a 150-day validity period).

HUD is no longer providing a copy of the REO appraisal to the originator. The originator must order a new appraisal, and the cost of the new appraisal can be charged to the borrower as part of the borrower's closing costs on the Closing Disclosure.

### ***Establishing Market Value for REO Properties***

HUD REO properties must be sold at or near market value. A "market value" price should reflect the price appropriate for properties sold in a competitive and open market, under all conditions requisite to a fair market sale, with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this characterization is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well-informed/well-advised and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in US dollars or in terms of a financial arrangement comparable thereto; and
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

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### ***Comparables for Appraisals***

When considering sales to be used as comparables, the appraiser must note the conditions of sale and the motivations of the sellers and purchasers. If REO sales and pre-foreclosure sales (PFS) / short sales are part of the market competing with the subject property, the appraiser must analyze the effect that these types of sales transactions have on the market and specifically on the subject property.

In some markets, REO and PFS sales may constitute the majority of recent transactions of similar properties, and thus, are significant in the analysis of the property for which financing is sought. However, in developing an opinion of market value, REO sales and PFS sales transactions should not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the appraiser must provide an additional explanation on the appraisal form.

Transfers to a mortgagee or entity owning the mortgage loan by the deed of trust through foreclosure sale or sheriff's sale are not acceptable as comparable sales under any circumstances.

### **Utility Issues**

Utilities should be on at the time the appraisal is conducted, unless there are documented extenuating circumstances. In the event of extenuating circumstances, the appraiser should note the following:

- On the Uniform Residential Appraisal Report (URAR), the appraiser will annotate "The following utilities were not on at the time the appraisal was conducted (e.g., electric, gas, and/or water) -- Unable to verify their functionality". However, the appraiser should note any readily observable condition that is evident
- HUD's M&M contractor shall permit entry to the purchaser during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the mortgage broker/lender or purchaser(s) must complete the systems check while the utilities are activated. A complete copy of this report must be provided to MiMutual if the HUD REO appraisal was completed without the utilities being activated. The report may identify a need for repairs which were not identified on the appraisal. In such cases the underwriter will address such issues. Section 203(b) financing will not be automatically approved simply based on the terms of the sales contract.

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## **Home Inspection**

The borrower has the right to have the house inspected by a professional home inspector. HUD's M&M contractor shall permit entry to the purchaser during the contract period.

Additionally, where FHA-insured financing is specified on the sales contract, a form HUD-92564-CN, "For Your Protection: Get a Home Inspection," must be provided to prospective homebuyers at first contact, be it pre-qualification, preapproval, or *no later than* initial application. If the form is incorporated within the executed sales contract in its entirety, then the homebuyer need not separately be provided with form HUD-92564-CN.

In the event the home inspection or the systems check reveals that repairs are needed which no longer makes the property eligible for an FHA-insured 203(b) mortgage, the mortgage broker should contact the M&M contractor to discuss alternatives to allow the sale to continue. The M&M contractor may allow the modification of the sales contract, as needed, to reflect a 203(b) with repair escrow or 203(k) sale. The sales contract must be revised to include this change, and initialed by both the purchaser and the M&M contractor. See the [203\(k\) Streamline](#) chapter or the [Full 203\(k\)](#) chapter for further details.

## **Termite/Pest Inspection**

If a termite inspection is required on existing property, contact the M&M contractor to determine if an inspection report has been performed, and if it has, to obtain a copy of it. See [Termite Inspections](#) for further detail.

## **Well and Septic System Inspection**

If the HUD REO property has a well and/or septic tank, contact the M&M contractor to determine if an inspection has been performed, and, if it has, to obtain a free copy of this inspection report. See [Water System](#) or [Sewage System](#) for further detail.

## *Repair Escrows*

Properties that need less than \$10,000 worth of repairs to meet the intent of the MPS will be offered for sale with insured financing available, provided a cash escrow is established to ensure the completion of repairs. See the [Repair Escrow](#) chapter for detailed guidance.

## *Closing Costs/Prepaid Expenses*

For HUD-paid closing costs, HUD has authorized as a sales incentive, purchasers to specify in Item 5 on the HUD sales contract an amount which HUD, as seller, may pay on the borrower's behalf at settlement.

This amount may be applied to the **actual cost** of closing costs and/or prepaid expenses. If the total of actual costs of such closing costs and/or prepaid expenses is less than the amount specified in Item 5, the balance may not be credited to the borrower.

Depending upon the amount of closing costs that HUD pays for the borrower, the maximum mortgage amount may have to be reduced in order for the borrower to meet the minimum cash investment required. Closing costs and prepaid expenses may not be included in the mortgage amount.

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# Repair Escrows

## Introduction

Escrow holdbacks are used to facilitate loan closings for properties that require no more than \$5000 of repairs (or \$10,000 for HUD REO properties) to meet FHA's minimum property requirements. The borrower is required to establish a cash escrow that will ensure the completion of the required repairs. These proceeds are held in an escrow account until the repair requirements are completed. This borrower accommodation allows the loan to close and the borrower to occupy the property while incidental work is finished. This document is intended to give guidance on proper qualification and closing procedures.

Repair escrow funds must be sufficient to cover the cost of the repairs or improvements.

## Requirements

Provided the housing is habitable and safe for occupancy at the time of loan closing, MiMutual may establish a repair escrow for alterations and repairs that cannot be completed prior to loan closing under Section 203(b), under the following conditions:

- Minimum amount: \$500
- Properties may not require more than \$5,000 of repairs to meet FHA's Minimum Property Requirements.
- Repairs should be considered minor/deferred maintenance, and may not affect the safety, soundness, or structural integrity of the property. This may include, but is not limited to:
  - Worn floor finishes
  - Carpet
  - Minor plumbing leaks
  - Holes in window screens
  - Cracked window glass,
  - Final grade / minor exterior items that cannot be completed due to inclement weather, or
  - Other minor issues typically related to normal wear and tear
- All repairs must be completed within 90 days, with the exception of exterior repairs that cannot be completed within the allotted timeframe due to inclement weather (for instance, if a repair escrow needs to be established for defective exterior paint surface in a Michigan home constructed pre-1978 and the closing date is December 5<sup>th</sup>, then the completion date should be April 30 in lieu of 90 days in order to allow sufficient time to paint in warmer temperatures).
- An amount equal to 150% of the estimated cost of the repairs will be collected at time of closing (so the maximum escrow amount permitted would be \$7,500).

## **HUD REOs**

HUD-owned properties are offered for purchase in "as is" condition. An amount equal to 110% of the estimated cost of the repairs will be escrowed (so the maximum escrow amount permitted would be \$11,000). **The escrow must be financed into the FHA loan. It is not to be taken from HUD proceeds at closing.**

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## *Holdbacks Not Permitted*

Escrow holdbacks are not permitted for the following reasons:

- Structural repairs
- Foundation work
- Roofs
- Items creating a livability issue

Per HUD guidelines, the dwelling on the mortgaged premises must be habitable and safe. Items essential for customary occupant use and enjoyment, or for property safety or durability, may not be escrowed. Under no circumstances may a loan be closed if the uncompleted items affect livability or the integrity of the structure (i.e., lack of gas, electricity, plumbing, or HVAC, or foundation defects).

## *Escrow Holdback Account Administration*

MiMutual will hold and administer the repair escrow account.

## *Determining the Escrow Amount*

The minimum amount permitted to be escrowed is \$500 **or** the amount of the repairs multiplied by 150%, whichever is greater.

When setting up an escrow holdback, the following documentation is required for the DE Underwriter's review and approval, specific to the holdback, before the loan is cleared to close

- Two (2) itemized bids from a licensed contractor that clearly identify each item to be completed, including an itemized estimation of costs.
- A copy of the contractor's current license.
- The appraisal detailing the required work
- Any other specific documentation as required by the loan type

The amount of repairs will be determined by the underwriter, and multiplied by 150% (1.5 times) to arrive at the total escrow figure. The borrower must have sufficient funds documented to establish the repair escrow account.

## **HUD REOs**

The repair escrow amount is taken from Line 4 of the HUD Sales Contract, which already includes the 10% overage. If additional repairs are revealed during the loan process (for example, as the result of a home inspection), 2 itemized bids will be required with a list of the repairs needed to make the property insurable, and the estimated cost of repairs. The underwriter will then determine the additional required escrow amount.

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## Maximum Mortgage Amount Calculation

### **Non-HUD REO with Repair Escrow**

Take the sales price of the property and multiply by 96.5% to determine base loan amount. The amount of the escrow (cost of repairs as determined by underwriter x 150%) is added to the required funds to close, and must be collected at closing.

#### ***Appraiser-Required Repairs***

MiMutual may add repair costs to the sales price before calculating the mortgage amount if:

- The repairs are required by the appraiser to meet HUD's MPR;
- The repairs are paid for by the borrower; and
- The sales contract or addendum identifies the borrower as the party responsible for payment and completion of repairs

The maximum amount of repair costs that may be added to the sales price is the lesser of:

- The amount by which the value of the property exceeds the sales price;
- The appraiser's estimate of repairs; or
- The amount of the contractor's bid

### **HUD REO with Repair Escrow**

Take the sum of the sales price of the property and the repair escrow amount, and subtract the 3.5% down payment to reach your base loan amount.

### **\$100 Down with Repair Escrow**

Take the sum of the sales price and the repair escrow amount, and subtract the \$100 down payment. This will be the new base loan amount. Buyers who have been approved by FHA to acquire HUD REO properties under an authorized \$100 minimum cash investment initiative may **only** finance the cost of the UFMIP through their FHA-insured loan product provided the total mortgage amount including the UFMIP does not exceed 100% of the "as-is" appraised value. Approved borrowers acquiring HUD REO properties under any such initiative are not eligible to finance prepaid expenses and financing/closing costs through their FHA-insured mortgage.

**NOTE:** Max mortgage amount calculations should be shown in the remarks section of the FHA Loan Underwriting and Transmittal Summary (92900-LT).

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## *At Closing*

MiMutual must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the repair escrow has been established.

A formal Repair Escrow Holdback Agreement will be required to be executed by the borrower and MiMutual. A \$175 Appraisal Re-inspection Fee will also be required and collected from the borrower at closing. It is acceptable to disclose this as a separate itemized Re-inspection fee or added to the total cost of the appraisal.

### **HUD REOs**

The Repair Escrow Re-Inspection Fee will be collected from the seller (US Department of HUD).

## *Completion of Repairs*

Generally, all repairs are to be completed by the borrower within 90 days of closing. Upon completion of the work (and prior to the repair escrow deadline), MiMutual will work directly with the customer and the contractor to document all the work has been completed. We will then order the Appraisal Update and/or Completion Report (Form 1004D), indicating all on-site alterations and repairs have been acceptably completed. MiMutual will pay for the inspection of the completed repairs with the Repair Escrow Administration Fee collected at closing (funds will not come from the repair escrow account).

If an inspection is requested to be done by a HUD fee inspector, MiMutual must provide a copy of HUD's list of required repairs to the inspector, so that he is aware of the items he will need to inspect. MiMutual may only release funds when repairs and improvements per the draw request meet all federal, state, and local laws, codes, and ordinances, including any required permits and inspections.

MiMutual will then disburse the escrow to compensate the borrower or the contractor, as appropriate. If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage, without exception. If the escrow is inadequate, or if additional items requiring repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost. If the borrower fails to complete the required repairs within 90 days of closing (or such additional time as is determined reasonable), or the repairs are unsatisfactory, MiMutual must apply the escrow amount to reduce the outstanding principal balance of the mortgage.

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## Limited 203(k)

### *Overview*

The Limited 203(k) program is intended to assist homeowners with basic (non-structural) repairs costing from a minimum of \$5,000 up to a maximum of \$35,000. The mortgage amount will allow for acquisition of the property and up to \$35,000 in loan proceeds to be applied toward repair/rehabilitation of the property as detailed below.

### *Eligibility Requirements*

#### **Property Eligibility**

The property must be an existing property that has been completed for at least one year prior to the case number assignment date. If it is uncertain whether the property has been completed for at least one year, a copy of the Certificate of Occupancy (C of O) or equivalent must be obtained.

A property that is not eligible for a 203(b) mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.

A Property with an existing 203(k) mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.

#### **Loan Terms**

- 30 year fixed rate
- 15 year fixed rate

#### **Mortgage Insurance**

Refer to [FHA Mortgage Insurance Chart](#)

#### **Eligible Borrowers**

Individuals only; Non-profit organizations and government agencies are not eligible. Employee loans are not eligible.

An identity of interest transaction is not allowed. There cannot be a relationship in any manner between parties: lender, broker, loan officer, realtor, seller, borrower, builder, contractor, or employer. However, sales transactions between family members are permitted. MiMutual must verify that there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The borrower and the 203(k) Consultant (if applicable) must each sign an Identity of Interest certification. If the borrower selected a 203(k) Consultant to perform a Feasibility Study, MiMutual may select the same 203(k) Consultant for the project without creating an Identity of Interest.

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**Occupancy**

- Owner-occupied only
- Investors not allowed

**Underwriting**

All Limited 203(k) loans will be underwritten according to standard FHA guidelines. Loans must be run through TOTAL Scorecard using Fannie Mae's Desktop Originator/Underwriter. The loan must be run through with the after repaired/improved value and the adjusted sales price (sales price plus borrower paid repairs minus sales concessions).

**Property Types*****Eligible***

- 1-4 unit properties
- Planned Unit Developments (PUDs)
- Site Condominiums
- Townhome/Rowhome
- Modular Homes
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparable sales.
- HUD REOs (Real Estate Owned/Property Disposition Sales) are eligible provided the repairs qualify as eligible work items outlined in these guidelines.
- Properties located in age-restricted communities – must be common for the area and have like comparable sales.

***Ineligible***

- Condominiums (other than site condos)
- See [Ineligible Collateral](#) section for a complete list of unacceptable property types

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## *Limited 203(k) Work Items*

### **Eligible**

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The total rehabilitation cost may not exceed \$35,000.

Eligible improvements include:

- eliminating health and safety hazards that would violate HUD's MPR;
- repairing or replacing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- eliminating obsolescence;
- repairing or installing new roofing, provided the structural integrity of the structure will not be impacted by the work being performed; siding; gutters; and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- installing, replacing or repairing exterior decks, patios, and porches; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA's Renovation, Repair, and Painting Rule

**NOTE:** *Patios and decks must increase the As-Is Property Value equal to the dollar amount spent on the improvements.*

Repairs must comply with all local codes and ordinances. The borrower and/or contractor must obtain all required permits prior to the commencement of work. Once the mortgage is approved and closed, the list of repair items cannot be changed unless the servicing lender approves a written change order. Change orders are limited to unforeseen conditions that are discovered during the course of the rehabilitation process (such as hidden damage caused by termites, mold or water damage, etc.). Costs related to change orders cannot be used to increase the mortgage amount. Change orders may result in the reallocation of mortgage proceeds among cost categories or in the substitution of work items covered by the proceeds. Therefore, if the contingency reserve is insufficient to cover any change order permitting additional work, the borrower must be able to pay for these costs out of pocket. If change orders result in a net cost increase, the borrower is responsible for the additional costs. If change orders result in a net cost decrease, the excess mortgage proceeds must be used to reduce the principle balance of the mortgage. If, for any reason, the costs incurred during the rehabilitation exceed the mortgage amount, the borrower is responsible for the additional costs. MiMutual will allow self-help in instances where the borrower wishes to purchase their own appliances and/or materials/supplies (such as tile, carpet, cabinetry, etc.) obtained from a home improvement store; however, the borrower will not complete the labor for these items (MiMutual will not allow self-help for installation by the borrower). Receipts are required to show cost and name of vendor/home improvement store, and the fully completed Self Help Agreement must also be provided. The Homeowner/Contractor Agreement is still required to be executed for the labor performed.

**Ineligible**

Properties that require the following work items are not eligible for financing under the Limited 203(k):

- Major rehabilitation or major remodeling, such as the tear down/relocation of a wall;
- Converting a one-family structure into a two-, three-, or four-family structure;
- Decreasing an existing multi-unit structure to a one- to four-family structure;
- Reconstructing a structure that has been or will be demolished;
- Repairing, reconstructing, or elevating an existing foundation;
- Purchasing an existing structure on another site and moving it onto a new foundation;
- Making structural alterations such as the repair of structural damage and new construction, including room additions;
- Landscaping, irrigation, or similar site amenity improvements;
- Constructing a windstorm shelter;
- Making additions or alterations to support commercial use or to equip or refurbish space for commercial use; and/or
- Making recreational luxury improvements, such as:
  - New swimming pools;
  - An exterior hot tub, spa, whirlpool bath, or sauna;
  - Barbeque pits, outdoor fireplaces or hearths;
  - Bath houses;
  - Tennis courts;
  - Satellite dishes;
  - Tree surgery (except when eliminating an endangerment to existing improvements);
  - Photo murals; or
  - gazebos

The Limited 203(k) program may not be used to finance any required repairs arising from the appraisal that do not appear on the list of Limited 203(k) Eligible Work Items or that would:

- Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up”;
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than two payments per specialized contractor;
- Require more than six months to complete (HUD will not grant extensions);
- Result in work not starting within 30 days after loan closing; or
- Any repairs that would cause the mortgagor to be displaced from the property for more than 15 days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the mortgagor would be able to occupy the property after mortgage loan closing).

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## *Required Forms/Documents*

These forms are in addition to normal required FHA forms/disclosures

### **Origination Forms**

Loan cannot be underwritten without these forms. The 203(k) forms and all 203(k) related exhibits, such as work plan estimates, bids, contractor acceptance documentation, etc. must be included with the credit package at the time of initial submission or loan will be suspended:

- Borrower's Identity of Interest Certification
- 203(k) Consultant's Certification (signed after preparing/reviewing the Work Write-Up and Cost Estimate), if a consultant was used
- Homeowner/Contractor Agreement between the borrower and the General Contractor, or if there is no GC, one for each contractor (must be fully executed)
- The 203(k) Maximum Mortgage Worksheet found in FHAConnection
- 203(k) Borrower's Acknowledgement – Form HUD-92700-A
- Feasibility Study (if performed)
- Self Help Agreement Form (must be executed prior to a clear to close)
- MiMutual's Contractor Acceptance Form

### **Closing Forms**

- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider to the Mortgage/Deed of Trust
- Self Help Rehabilitation Loan Agreement

### **Post-Closing/Funding Forms**

- Request for Acceptance of Changes in Approved Drawings & Specifications – Form HUD-92577 (required in the event of needed changes after closing/funding)
- Borrower's Letter of Completion (after repairs have been satisfactorily completed as verified by an inspection)

### **Additional Required Documentation**

- Contractor's Cost Estimate  
The final contractor's itemized estimate of the repairs and improvements to be completed must be obtained for all work items.

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## Maximum Mortgage Amount Calculation

Use the applicable 203(k) Maximum Mortgage Worksheet to calculate the mortgage amount. Expenses that may be included in the total amount of the improvements, with a minimum repair amount of \$5,000 and not to exceed the \$35,000 limit, are inspection fees, building and other permits, the supplemental origination fee, title update costs and the amount of any contingency reserve required. High Balance loans are not permitted.

**NOTE:** The Maximum Mortgage Worksheet must be signed by the underwriter and uploaded to eDocs each time the worksheet is completed.

### Purchases

The maximum mortgage that FHA will insure on a 203(k) purchase is the lesser of:

- The appropriate LTV ratio (typically 96.5%), multiplied by the lesser of:
  - The [Adjusted As-Is Value](#), plus:
    - financeable repair and improvement costs;
    - financeable mortgage fees; and
    - financeable contingency reserves; or
  - 110% of the after improved value (100% for site condos); OR
- The [Nationwide Mortgage Limits](#)

For a HUD REO 203(k) purchase, MiMutual must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO Purchase Guidance.

### Refinances

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

- The existing debt and fees associated with the new mortgage, plus:
  - Financeable repair and improvement costs;
  - Financeable mortgage fees; and
  - Financeable contingency reserves; OR
- The appropriate LTV ratio (typically 97.75%), multiplied by the lesser of:
  - The [adjusted as-is value](#), plus:
    - Financeable repair and improvement costs;
    - Financeable mortgage fees; and
    - Financeable contingency reserves; or
  - 110% of the After Improved Value (100% for site condos); OR
- The [Nationwide Mortgage Limits](#)

MiMutual must obtain the mortgage payoff statement for existing debt.

For properties acquired less than 12 months prior to the Case Assignment Date, MiMutual must document the lowest acquisition cost in the past 12 months by obtaining a copy of the Settlement Statement or other legal documentation evidencing acquisition cost.

If improvements were made to the property subsequent to the acquisition, MiMutual must document the associated cost of the improvements by obtaining the following:

- A contract for completion of the work;
- Materials cost and paid receipts; and
- Permit costs.

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## *Purchases*

On a purchase transaction, the sales contract must include a provision that the borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the borrower's acceptance of additional required improvements as determined by MiMutual.

If the borrower is financing a HUD REO property, the first block on Line 4 of Form HUD-9548, *Instructions and Sales Contract*, must be checked, as well as the applicable block for 203(k).

## *Refinances*

Although Section 203(k) may be used to refinance and rehabilitate a property, it may not be used as a means of withdrawing or recapturing equity, and thus, no cash back to an investor/mortgagor is permitted. It is essential that any existing debt or obligation(s) be clearly limited to the property to be rehabilitated. A line of credit made available to the refinancing mortgagor without a clear connection to the subject property does not meet HUD requirements unless there is documentation, acceptable to the Secretary, indicating loan proceeds were used for the purchase and/or repair of the property. The same is true for any first mortgage or other junior liens secured by the property for at least one year prior to loan application.

## *Appraisal Requirements*

MiMutual must establish both an Adjusted As-Is Value and an After Improved Value of the property. An appraisal report by an FHA Roster Appraiser is always required to establish the After Improved Value of the property. Except as described below in cases of property flipping and refinance transactions, MiMutual is not required to obtain an as-is appraisal, and may use alternate methods mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, MiMutual must use it in establishing the Adjusted As-Is Value. If a second appraisal is required, it must be completed as-is.

The appraiser must be provided with a copy of the work plan, contractor's proposal, and Cost Estimates at assignment.

### **Adjusted As-Is Value**

MiMutual must establish the Adjusted As-Is Value as described below.

#### ***Purchase Transactions***

For purchase transactions, the Adjusted As-Is Value is the lesser of:

- The purchase price, less any inducements to purchase; or
- The As-Is Property Value

The As-Is Property Value refers to the as-is value as determined by an FHA Roster Appraiser, when an as-is appraisal is obtained.

In the case of property flipping, MiMutual must obtain an as-is appraisal if needed to comply with the [property flipping guidelines](#).

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## ***Refinance Transactions***

### **Properties Acquired Greater Than or Equal to 12 Months Prior to Case Assignment Date**

MiMutual must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the following items exceeds the After Improved Value:

- Financeable repairs and improvement costs;
- Financeable mortgage fees; and
- Financeable contingency reserves

When an as-is appraisal is obtained, the Adjusted As-Is Value is the As-Is Property Value.

MiMutual has the option of using the existing debt plus fees associated with the new mortgage or obtaining an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the following items does not exceed the After Improved Value:

- Financeable Repairs and improvement costs;
- Financeable mortgage fees; and
- Financeable contingency reserves

Existing debt includes:

- The unpaid principal balance (UPB) of the first mortgage as of the month prior to mortgage disbursement;
- The UPB of any purchase money junior mortgage as of the month prior to disbursement;
- The UPB of any junior liens over 12 months old as of the date of mortgage disbursement. If the balance or any portion of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond \$1,000 of the line of credit is not eligible for inclusion in the new mortgage;
- Interest due on the existing mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing mortgage;
- Any prepayment penalties assessed;
- Late charges; and
- Escrow shortages.

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### **Properties Acquired Less Than 12 Months Prior to Case Assignment Date**

For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained.

For properties acquired by the borrower within 12 months of the case assignment date by inheritance or through a gift from a family member, MiMutual may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

### **After Improved Value**

To establish the after improved value, MiMutual must obtain an appraisal of the property subject to the repairs and improvements.

### *Acceptance of Contractors and Rehabilitation Criteria*

- No “self-help” arrangements allowed (appliances / materials / supplies are acceptable). **All receipts for reimbursement through the repair escrow account must be dated after the loan closing date.**
- MiMutual must accept all contractor(s). The Contractor Acceptance Form must be completed for each project, and must be submitted to MiMutual with all required attachments:
  - Signed and dated W-9
  - Certificate of Liability Insurance (local requirements will dictate minimum insurance coverage required for the contractor)
  - Copy of license (required unless state does not require contractor licensure)
  - Letters of reference or contact information from customers and suppliers (required when no license is available)
- The contractor acceptance process involves verification of the following items:
  - The contractor’s name (not DBA) appears on all forms
  - The contractor has been in business for at least 3 years
  - The contractor’s primary employment corresponds with the work to be completed
  - The contractor’s experience shows they have completed projects of similar scope within the last few years
  - The contractor has experience with projects financed by FHA 203(k) or Fannie HomeStyle, as applicable
  - The customer references provided good reviews of the contractor’s work and performance
  - The supplier references provided acceptable comments concerning payment
  - The insurance meets all minimum local requirements
  - The acceptance form is signed and dated
  - If the contractor is licensed, confirmation of the copy of the license provided and that it is current
- MiMutual will only allow a maximum of 3 contractors per property (including self-help).
- General contractor is not required. **\*\*It is strongly recommended to use one (1) general contractor when no specialization is required for repairs (i.e. lead based paint, mold remediation, etc)**

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- Work plan, written proposal, and cost estimates must be submitted, and must be reviewed and approved by MiMutual to ensure the planned work meets all program and repair requirements as noted by the appraiser/inspector.
  - The work plan from the borrower must detail the proposed repairs or improvements. An outside party, such as a contractor or a 203(k) Consultant may be engaged to assist. There is no required format for the work plan.
  - A written proposal and Cost Estimate must be obtained from a contractor for each specialized repair or improvement. MiMutual must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements (per Contractor Approval Process described above). The written proposal must indicate work items that require permits, and state that repairs are non-structural. The Cost Estimate must state the nature and type of repair and cost for each work item, broken down by labor and materials, using [MiMutual's 203\(k\) Contractor Proposal](#) (or a similar document containing the same information)
  - When an appraisal report identifies the need for health and safety repairs that were not included in the consultant's work write-up, borrower's work plan, or contractor's proposal, MiMutual must ensure the repairs are included in the consultant's final work write-up or the borrower's final work plan.
- Only "fixed price" contracts, which are subject to written change orders approved by the underwriter in the event of unforeseen conditions, are acceptable. "Cost plus" or "time and material" contracts are prohibited. The repair cost must be reasonable and customary for the area in which the property is located.
- The contractor(s) must finish the work in accordance with the written estimate and the Homeowner/Contractor Agreement as well as any approved change order.
- Architectural exhibits do not apply.
- After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame. (See 203(k) Homeowner Contractor Agreement posted on our website).
- The Rehabilitation Construction Period begins when the mortgage is recorded, and **must** begin within 30 days of closing.
- Any repairs that have already been completed cannot be included in 203(k) financing.

## *Fees*

The following costs and fees may be financed:

- Costs of construction, repairs, and rehabilitation;
- Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- Title update fees;
- Permits;
- Contingency reserve;
- Supplemental origination fee; and
- Discount points.

An explanation of fees is below.

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**Inspection Fee**

One final inspection will be ordered prior to the final draw request by the servicing lender. One inspection fee is required to be included at \$175.00.

**Supplemental Origination Fee**

MiMutual has **temporarily** suspended the collection of the Supplemental Origination Fee

**Title Update Fee**

One title update will be required and will be ordered by the servicing lender upon receipt of the final draw request to ensure title is clear of any liens. The cost of one title update to be included is \$150.00.

**Contingency Reserves**

Contingency Reserves are additional reserves that are kept in the event of cost overruns. Contingency Reserves will be required as follows:

***For structures with an actual age of less than 30 years:***

	Minimum	Maximum
Required for All Properties	10%	20%

***For structures with an actual age of 30 years or more:***

	Minimum	Maximum
Required	10%	20%
Required when Utilities are Not Operable as Referenced in the Work Write-Up	15%	20%

The contingency reserve is a percentage of the costs of construction, repairs, and rehabilitation.

***Properties Located in Texas***

Only loans that are not subject to Section 50(a)(6) of the Texas Constitution are eligible for 203(k) financing. In addition to all of the standard 203(k) requirements, loans must meet all criteria as described below.

**Work and Materials Contract**

The Work and Materials contract:

- Must be in writing
- Must be signed by both spouses (if married)
- Cannot be signed until at least 5 days after written loan application
- Must be signed at office of lender, title company, or attorney

**Self-Help**

Self-help of any kind is not permitted on 203(k) loans in Texas. The borrower may not purchase their own materials and/or appliances.

**Disbursements**

No funds may be issued to the borrower; therefore, two-party checks are not permitted.

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## *Disbursements/Payments to Contractors*

MiMutual will disburse the initial draw once the mortgage has been recorded. The borrower(s) will receive an informational packet from MiMutual within five days of disbursement, which will explain the following:

- Maximum two (2) disbursements will be made (an initial and a final). Additional disbursements will not be permitted.
- First disbursement will be made after recordation.
  - The amount and purpose of the initial draw at closing must be documented on the HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*
  - The initial draw may disburse permit fees at closing (the permit must be obtained before work commences)
  - Up to 50% of the estimated materials and labor costs may be disbursed before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.
- Any contractual agreements and paid receipts for permits/fees must be submitted to MiMutual with the initial and/or final draw request. All contractors and subcontractors must submit invoices on business letterhead, one invoice per contractor. The invoice should itemize the cost of materials and labor for each work item. This is mandatory in order to receive payment. MiMutual has a [203\(k\) Contractor Proposal](#) that may be used to satisfy this requirement.
- All change order requests must be submitted to MiMutual and approved before work can begin.
- Any receipts for reimbursement from the repair escrow account cannot be dated prior to the loan closing date (including appliances).
- Final Compliance Inspections are required prior to the final disbursement and will be ordered/obtained by MiMutual.
- Final disbursement will occur after it has been verified that the title is clear of any mechanics liens. A check will be issued within 5 business days of the verification. Checks will be sent via overnight carrier and will be made payable to the contractor (or to the borrower, if for self-help). MiMutual must:
  - Obtain the [Borrower's Letter of Completion](#), signed by the borrower, indicating satisfaction with the completed work and requesting a final inspection and final release of funds;
  - Obtain a C of O, or equivalent, if required by the local jurisdiction;
  - Obtain all inspections required by the local jurisdiction
  - Complete the [Final Release Notice](#) authorizing the final payment;
  - Provide the extension approval, if applicable; and
  - obtain a release of any and all liens arising out of the contract or submission of receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim
- Any remaining amounts in the repair escrow account will be applied toward the principal balance of the loan. This includes any unused contingency funds or inspection fees remaining in the repair escrow account. **No portion of this money may be used for building material changes or repairs.** These funds are interest bearing and interest is accounted for and distributed to the borrower based on the borrower's instructions outlined in the 203(k) Borrower's Acknowledgment Form HUD-92700-A.
- All repairs/home improvements must begin within 30 days of closing (but not before recordation of the mortgage), and be completed within six months, in compliance with the Rehabilitation Loan Agreement.

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## Standard 203(k)

*Unless otherwise addressed below, standard FHA guidelines apply.*

### Overview

This program is intended to assist homeowners with repairs/improvements of \$5,000 or greater. The mortgage amount will allow for acquisition of the property, and loan proceeds to be applied toward repair/rehabilitation of the property as described in this chapter.

### Eligibility Requirements

#### **Property Eligibility**

The property must be an existing property that has been completed for at least one year prior to the case number assignment date. If it is uncertain whether the property has been completed for at least one year, a copy of the Certificate of Occupancy (C of O) or equivalent must be obtained.

A property that is not eligible for a 203(b) mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.

A Property with an existing 203(k) mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.

#### **Minimum Credit Score**

A minimum 580 score is required, regardless of AUS recommendation

#### **Loan Terms**

- 30 year fixed rate
- 15 year fixed rate

#### **Mortgage Insurance**

Refer to [FHA Mortgage Insurance Chart](#)

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**Eligible Borrowers**

Individuals only; Non-profit organizations and government agencies are **not** eligible. Employee loans are not eligible.

An identity of interest transaction is not allowed. There cannot be a relationship in any manner between parties: lender, broker, loan officer, realtor, seller, borrower, builder, contractor, or employer. However, sales transactions between family members are permitted. MiMutual must verify that there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The borrower and the 203(k) Consultant must each sign an Identity of Interest certification. If the borrower selected a 203(k) Consultant to perform a Feasibility Study, MiMutual may select the same 203(k) Consultant for the project without creating an Identity of Interest.

**Occupancy**

- Owner-occupied only
- Investors not allowed

**Underwriting**

All 203(k) loans will be underwritten according to standard FHA guidelines. Loans must be run through TOTAL Scorecard using Fannie Mae's Desktop Originator/Underwriter. The loan must be run through with the after repaired/improved value and the adjusted sales price (sales price plus borrower paid repairs minus sales concessions).

*Property Types*

Property must have been completed for one year. A SFR can be converted to a multi-family property (up to 4 units), or a multi-family dwelling can be reduced.

MiMutual does not permit existing homes to be moved to a new location/foundation.

**Eligible**

- 1-4 unit properties
- Planned Unit Developments (PUDs)
- Site Condominiums
- Townhome/Rowhome
- Modular Homes
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparable sales.
- HUD REOs (Real Estate Owned/Property Disposition Sales) are eligible provided the repairs qualify as eligible work items outlined in these guidelines.
- Properties located in age-restricted communities – must be common for the area and have like comparable sales.

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## **Ineligible**

- Condominiums (other than site condos)
- See [Ineligible Collateral](#) section for a complete list of unacceptable property types

## *Process Overview*

The loan will follow the process as described below:

- **Preliminary Feasibility Analysis.** After the property is located, the homebuyer and their real estate professional should make a marketability analysis prior to signing the sales contract. The following should be determined:
  - The extent of the rehabilitation work required;
  - Rough cost estimate of the work; and
  - The expected market value of the property after completion of the work.

*Note: The borrower does not want to spend money for appraisals and repair specifications (plans), then discover that the value of the property will be less than the purchase price (or existing indebtedness), plus the cost of improvements.*
- **Sales Contract is Executed.** A provision should be included in the sales contract that the buyer has applied for Section 203(k) financing, and that the contract is contingent upon loan approval and buyer's acceptance of additional required improvements as determined by HUD or the lender.
- **Consultant Prepares Work Write-up and Cost Estimate.** The Consultant selected must be an FHA-approved 203(k) Consultant from the FHA 203(k) Consultant Roster. The services of a Consultant who has demonstrated previous poor performance based on reviews performed may not be used.
- **HUD Case Number is Requested.**
- **Fee Consultant Visits Property.** The homebuyer and contractor (where applicable) meet with the fee consultant to ensure that the architectural exhibits are acceptable and that all program requirements have been properly shown on the exhibits.
- **Appraiser Performs the Appraisal.** Appraiser must be provided with all bids and fee consultant write-up.
- **MiMutual Reviews the Loan Submission.** The loan is reviewed to determine eligibility and maximum insurable mortgage amount for the property
- **Issuance of Conditional Commitment/Statement of Appraised Value.** This is issued by MiMutual and establishes the maximum insurable mortgage amount for the property.
- **MiMutual Issues Underwriting Approval.** If the submission package is found acceptable, the approval is issued. It states the maximum mortgage amount that HUD will insure for the borrower and the property.
- **Mortgage Loan Closing.** After issuance of the Clear to Close, MiMutual prepares for the closing of the mortgage. This includes the preparation of the Rehabilitation Loan Agreement. The Agreement is executed by the borrower and the lender in order to establish the conditions under which the lender will release funds from the Rehabilitation Escrow Account. Following closing, the borrower is required to begin making mortgage payments on the entire principal amount for the mortgage, including the amount in the Rehabilitation Escrow Account that has not yet been disbursed.
- **Mortgage Insurance Endorsement.** Following loan closing, MiMutual submits copies of the mortgage documents to the HUD office for mortgage insurance endorsement.
- **Rehabilitation Construction Begins.** At loan closing, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin after the mortgage is recorded. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed.

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- **Releases from Rehabilitation Escrow Account.** As construction progresses, funds are released after the work is inspected by a HUD-approved inspector. MiMutual may only release funds when repairs and improvements per the draw request meet all federal, state, and local laws, codes, and ordinances, including any required permits and inspections. A maximum of four draw inspections plus a final inspection are allowed. The inspector reviews the Draw Request (form HUD-9746-A) that is prepared by the borrower and contractor. A draw request for work that is not yet complete will not be approved.
- **Completion of Work/Final Inspection.** When all work is complete according to the approved architectural exhibits and change orders, the borrower provides a letter indicating that all work is satisfactorily complete and ready for final inspection. If the HUD-approved inspector agrees, the final draw may be released, minus the required 10 percent holdback. If there is an unused contingency fund, the lender must apply the funds to prepay the mortgage principal. MiMutual must:
  - Obtain the [Borrower's Letter of Completion](#), signed by the borrower, indicating satisfaction with the completed work and requesting a final inspection and final release of funds;
  - Obtain a C of O, or equivalent, if required by the local jurisdiction;
  - Obtain all inspections required by the local jurisdiction
  - Complete the [Final Release Notice](#) authorizing the final payment;
  - Provide the extension approval, if applicable; and
  - obtain a release of any and all liens arising out of the contract or submission of receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim

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## *Eligible Improvements*

Eligible improvements include, but are not limited to:

- converting a one-family structure to a two-family structure;
- decreasing an existing multi-unit structure to a one- to two-family structure;
- repairing, reconstructing or elevating an existing foundation where the structure will not be demolished;
- making structural alterations such as the repair or replacement of structural damage, additions to the structure, and finished attics and/or basements;
- rehabilitating, improving or constructing a garage;
- eliminating health and safety hazards that would violate HUD's Minimum Property Requirements (MPR);
- installing or repairing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- making changes for aesthetic appeal;
- repairing or adding roofing, gutters and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- making site improvements;
- landscaping;
- installing or repairing exterior decks, patios, and porches;
- constructing a windstorm shelter; and
- covering lead-based paint stabilization costs, if the structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and the U.S. Environmental Protection Agency's (EPA) Renovation, Repair, and Painting Rule.

### **General Improvement Standards**

All improvements to existing structures must comply with HUD's MPR and meet or exceed local building codes. For a newly constructed addition to the existing structure, the energy improvements must meet or exceed local codes and the requirements of the 2006 International Energy Conservation Code (IECC) or a successor energy code standard that has been adopted by HUD through a Federal Register notice.

### **Specific Improvement Standards**

Any addition of a Structure unit must be attached to the existing Structure. Site improvements, landscaping, patios, decks and terraces must increase the As-Is Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the Property from erosion.

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MiMutual will allow self-help in instances where the borrower wishes to purchase their own appliances and/or materials/supplies (such as tile, carpet, cabinetry, etc.) obtained from a home improvement store; however, the borrower will not complete the labor for these items (MiMutual will not allow self-help for installation by the borrower). Receipts are required to show cost and name of vendor/home improvement store, and the fully completed Self Help Agreement must also be provided. The Homeowner/Contractor Agreement is still required to be executed for the labor performed.

### *Ineligible Improvements*

The 203(k) mortgage proceeds **may not** be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a permanent part of the subject property, or improvements that solely benefit commercial functions within the property, including:

- recreational or luxury improvements, such as:
  - swimming pools (existing swimming pools can be repaired)
  - an exterior hot tub, spa, whirlpool bath, or sauna
  - barbecue pits, outdoor fireplaces or hearths
  - bath houses
  - tennis courts
  - satellite dishes
  - tree surgery (except when eliminating an endangerment to existing improvements)
  - photo murals
  - gazebos; or
- additions or alterations to support commercial use or to equip or refurbish space for commercial use;
- Purchasing a dwelling on another site, and moving it onto a new foundation on the mortgaged property
- Demolishing or razing a home as a part of the rehabilitation work

The 203(k) program may not be used to finance any repairs that would:

- Require more than six months to complete (HUD will not grant extensions), or
- Result in work not starting within 30 days after loan closing

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## *Required Forms/Documents*

These forms are in addition to normal required FHA forms/disclosures:

### **Origination Forms**

Loan cannot be underwritten without these forms. The 203(k) forms and all 203(k) related exhibits, such as work plan estimates, bids, contractor acceptance documentation, etc. must be included with the credit package at the time of initial submission or loan will be suspended:

- Borrower's Identity of Interest Certification
- 203(k) Consultant's Certification (signed after preparing/reviewing the Work Write-Up and Cost Estimate)
- Homeowner/Contractor Agreement between the borrower and the General Contractor, or if there is no GC, one for each contractor (must be fully executed)
- The applicable 203(k) Maximum Mortgage Worksheet
  - [Purchases](#)
  - [Refis Acquired ≥ 12mos prior to Case Assignment OR Acquired < 12mos through Inheritance or Gift](#)
  - [Refis Acquired < 12mos prior to Case Assignment](#)
- 203(k) Borrower's Acknowledgement – Form HUD-92700-A
- Feasibility Study (if performed)
- Self Help Agreement Form (must be executed prior to a clear to close)
- MiMutual's Contractor Acceptance Form

### **Closing Forms**

- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider to the Mortgage/Deed of Trust
- Self Help Rehabilitation Loan Agreement

### **Post-Closing/Funding Forms**

- Request for Acceptance of Changes in Approved Drawings & Specifications – Form HUD-92577 (required in the event of needed changes after closing/funding)

### **Additional Required Documentation**

- Consultant **Final** Work Write-Up and Cost Estimate  
The final work write-up must include all required repairs and improvements to meet HUD's MPS and MPR (as applicable) and the borrower's electives. The cost estimate must state the nature and type of repair and cost for each work item, broken down by labor and materials.
- Architectural Exhibits  
MiMutual must obtain and review all required architectural exhibits included in the consultant's final work write-up
- Consultant/Borrower Agreement  
A written agreement must be obtained between the consultant and the borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the borrower that any inspection performed by the consultant is not a "home inspection" as detailed in the disclosure form HUD-92564-CN, *For Your Protection, Get a Home Inspection*

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## Inspector Definitions

### **HUD Roster Inspector**

A HUD Roster Inspector is a full-time employee of HUD. They are far less prevalent now than they used to be.

### **HUD Fee Inspector**

Fee Inspectors are qualified inspectors that are well-versed in HUD's requirements. They are equal to a Roster Inspector, but are paid a fee per inspection as opposed to a salary.

### **203(k) Consultant (Fee Consultant)**

A Fee Consultant has the authority to do everything that Roster Inspectors and Fee Inspectors do, but additionally, are trained in building cost analysis. A Fee Consultant must be used on a Full 203(k) transaction.

## Maximum Mortgage Amount Calculation

Use the applicable 203(k) Maximum Mortgage Worksheet to calculate the mortgage amount. See [Financeable Costs and Fees](#) for expenses eligible to be included in the cost of rehabilitation, such as materials, labor, contingency reserve, overhead and construction profit, expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector, licenses and consultant and/or architectural/engineering fees, the supplemental origination fee, and the discounts which the borrower will pay on that portion of the mortgage proceeds allocated to the rehabilitation.

High balance loans **are** permitted. See [High Limit Area Loans](#) chapter for additional requirements.

**NOTE:** *The Maximum Mortgage Worksheet must be signed by the underwriter and uploaded to eDocs each time the worksheet is completed.*

### **Purchases**

The maximum mortgage that FHA will insure on a 203(k) purchase is the lesser of:

- The appropriate LTV ratio (typically 96.5%), multiplied by the lesser of:
  - The [Adjusted As-Is Value](#), plus:
    - financeable repair and improvement costs;
    - financeable mortgage fees; and
    - financeable contingency reserves; or
  - 110% of the after improved value (100% for site condos); OR
- The [Nationwide Mortgage Limits](#)

For a HUD REO 203(k) purchase, MiMutual must calculate the maximum mortgage amount that FHA will insure in accordance with [HUD REO Purchase Guidance](#).

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## **Refinances**

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

- The existing debt and fees associated with the new mortgage, plus:
  - Financeable repair and improvement costs;
  - Financeable mortgage fees; and
  - Financeable contingency reserves; OR
- The appropriate LTV ratio (typically 97.75%), multiplied by the lesser of:
  - The [adjusted as-is value](#), plus:
    - Financeable repair and improvement costs;
    - Financeable mortgage fees; and
    - Financeable contingency reserves; or
  - 110% of the After Improved Value (100% for site condos); OR
- The [Nationwide Mortgage Limits](#)

MiMutual must obtain the mortgage payoff statement for existing debt.

For properties acquired less than 12 months prior to the Case Assignment Date, MiMutual must document the lowest acquisition cost in the past 12 months by obtaining a copy of the Settlement Statement or other legal documentation evidencing acquisition cost.

If improvements were made to the property subsequent to the acquisition, MiMutual must document the associated cost of the improvements by obtaining the following:

- A contract for completion of the work;
- Materials cost and paid receipts; and
- Permit costs

## *Purchases*

On a purchase transaction, the sales contract must include a provision that the borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the borrower's acceptance of additional required improvements as determined by MiMutual.

If the borrower is financing a HUD REO property, the first block on Line 4 of Form HUD-9548, *Instructions and Sales Contract*, must be checked, as well as the applicable block for 203(k).

## *Refinances*

Although Section 203(k) may be used to refinance and rehabilitate a property, it may not be used as a means of withdrawing or recapturing equity, and thus, no cash back to a mortgagor is permitted. It is essential that any existing debt or obligation(s) be clearly limited to the property to be rehabilitated. A line of credit made available to the refinancing mortgagor without a clear connection to the subject property does not meet HUD requirements unless there is documentation, acceptable to the Secretary, indicating loan proceeds were used for the purchase and/or repair of the property. The same is true for any first mortgage or other junior liens secured by the property for at least one year prior to loan application.

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## *Appraisal Requirements*

MiMutual must establish both an Adjusted As-Is Value and an After Improved Value of the property. An appraisal report by an FHA Roster Appraiser is always required to establish the After Improved Value of the property. Except as described below in cases of property flipping and refinance transactions, MiMutual is not required to obtain an as-is appraisal, and may use alternate methods mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, MiMutual must use it in establishing the Adjusted As-Is Value. If a second appraisal is required, it must be completed as-is.

The appraiser must be provided with a copy of the Consultant's Work Write-Up and Cost Estimate at assignment.

### **Adjusted As-Is Value**

MiMutual must establish the Adjusted As-Is Value as described below.

#### ***Purchase Transactions***

For purchase transactions, the Adjusted As-Is Value is the lesser of:

- The purchase price, less any inducements to purchase; or
- The As-Is Property Value

The As-Is Property Value refers to the as-is value as determined by an FHA Roster Appraiser, when an as-is appraisal is obtained.

In the case of property flipping, MiMutual must obtain an as-is appraisal if needed to comply with the [property flipping guidelines](#).

#### ***Refinance Transactions***

##### **Properties Acquired Greater Than or Equal to 12 Months Prior to Case Assignment Date**

MiMutual must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the following items exceeds the After Improved Value:

- Financeable repairs and improvement costs;
- Financeable mortgage fees; and
- Financeable contingency reserves

When an as-is appraisal is obtained, the Adjusted As-Is Value is the As-Is Property Value.

MiMutual has the option of using the existing debt plus fees associated with the new mortgage or obtaining an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the following items does not exceed the After Improved Value:

- Financeable Repairs and improvement costs;
- Financeable mortgage fees; and
- Financeable contingency reserves

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Existing debt includes:

- The unpaid principal balance (UPB) of the first mortgage as of the month prior to mortgage disbursement;
- The UPB of any purchase money junior mortgage as of the month prior to disbursement;
- The UPB of any junior liens over 12 months old as of the date of mortgage disbursement. If the balance or any portion of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond \$1,000 of the line of credit is not eligible for inclusion in the new mortgage;
- Interest due on the existing mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing mortgage;
- Any prepayment penalties assessed;
- Late charges; and
- Escrow shortages.

### **Properties Acquired Less Than 12 Months Prior to Case Assignment Date**

For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained.

For properties acquired by the borrower within 12 months of the case assignment date by inheritance or through a gift from a family member, MiMutual may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

### **After Improved Value**

To establish the after improved value, MiMutual must obtain an appraisal of the property subject to the repairs and improvements.

### *Acceptance of Contractors and Rehabilitation Criteria*

MiMutual must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the work write-up for the amount of the cost estimate and within the allotted time frame.

- Self-help arrangements only allowed for appliances / materials / supplies. Labor/installation by the borrower not permitted. **All receipts for reimbursement through the repair escrow account must be dated after the loan closing date.**
- Estimates for the work to be done must be provided by the contractor(s) using [MiMutual's 203\(k\) Contractor Proposal](#) (or a similar document containing the same information). All repairs / improvements must be itemized, both materials and labor.
- MiMutual must accept all contractor(s). The Contractor Acceptance Form must be completed for each project, and must be submitted to MiMutual with all required attachments:
  - Signed and dated W-9
  - Certificate of Liability Insurance (local requirements will dictate minimum insurance coverage required for the contractor)
  - Copy of license (required unless state does not require contractor licensure)
  - Letters of reference or contact information from customers and suppliers (required when no license is available)

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- The contractor acceptance process involves verification of the following items:
  - The contractor’s name (not DBA) appears on all forms
  - The contractor has been in business for at least 3 years
  - The contractor’s primary employment corresponds with the work to be completed
  - The contractor’s experience shows they have completed projects of similar scope within the last few years
  - The contractor has experience with projects financed by FHA 203(k) or Fannie HomeStyle, as applicable
  - The customer references provided good reviews of the contractor’s work and performance
  - The supplier references provided acceptable comments concerning payment
  - The insurance meets all minimum local requirements
  - The acceptance form is signed and dated
  - If the contractor is licensed, confirmation of the copy of the license provided and that it is current
- A General Contractor is not required. **\*\*It is strongly recommended to use one (1) General Contractor when no specialization is required for repairs (i.e. lead based paint, mold remediation, etc)**
- Work write-up and cost estimates will be reviewed and must be approved by MiMutual to ensure the planned work meets all program and repair requirements as noted by the appraiser/inspector. Cost estimates must clearly state the nature and type of repair and the cost for completion of the work item. MiMutual must also review the work write-up to ensure that all health and safety issues identified were addressed before, including additional work items.
  - A written proposal and Cost Estimate must be obtained from a contractor for each specialized repair or improvement. MiMutual must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements (per Contractor Approval Process described above). The written proposal must indicate work items that require permits. The Cost Estimate must state the nature and type of repair and cost for each work item, broken down by labor and materials, using MiMutual’s 203(k) Contractor Proposal (or a similar document containing the same information)
  - When an appraisal report identifies the need for health and safety repairs that were not included in the consultant’s work write-up, borrower’s work plan, or contractor’s proposal, MiMutual must ensure the repairs are included in the consultant’s final work write-up or the borrower’s final work plan
- Only “fixed price” contracts, which are subject to written change orders approved by the underwriter in the event of unforeseen conditions, are acceptable. “Cost plus” or “time and material” contracts are prohibited. The repair cost must be reasonable and customary for the area in which the property is located.
- The contractor(s) must finish the work in accordance with the written estimate and the Homeowner/Contractor Agreement as well as any approved change order.
- After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame. (See [203\(k\) Homeowner Contractor Agreement](#) posted on our website).
- The Rehabilitation Construction Period begins when the mortgage is recorded, and **must** begin within 30 days of closing.
- Any repairs that have already been completed cannot be included in 203(k) financing.

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## *Financeable Costs and Fees*

The following costs and fees may be financed:

- Costs of construction, repair, and rehabilitation;
- Architectural/engineering professional fees;
- The 203(k) Consultant fee, subject to the limits in the 203(k) [Consultant Fee Schedule](#) Section;
- Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- Title update fees;
- Permits;
- Origination Fee;
- Discount points;
- [Contingency reserve](#); and
- A Feasibility Study, when necessary to determine if the rehabilitation is feasible

An explanation of fees is below.

### **Inspection Fee**

HUD allows an inspection fee of up to \$350 per inspection. For initial disclosure purposes, an inspection fee will be reflected in the amount of \$1,050. If additional documentation is provided from the Fee Consultant that necessitates a higher amount, this would be considered a valid Change of Circumstance. If additional inspections beyond the maximum of 5 are required by MiMutual to ensure satisfactory compliance with exhibits, the borrower or contractor will be responsible for payment.

### **Origination Fee**

MiMutual has temporarily suspended the collection of the Origination Fee.

### **Discount Points**

A portion of the borrower-paid discount points may be financed, not to exceed an amount equal to the discount point percentage multiplied by the total of Financeable Repair and Improvement Costs and Fees and Financeable Contingency Reserves.

### **Title Update Fee**

To protect the validity of the mortgage position from mechanic's liens on the property, reasonable fees charged by a title company may be included as an allowable cost of rehabilitation. MiMutual will collect one title update fee at \$150.00 at closing. Any monies left in escrow after the final draw release must be applied to reduce the mortgage balance.

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## **Contingency Reserves**

### ***For structures with an actual age of less than 30 years:***

	<b>Minimum</b>	<b>Maximum</b>
Required for All Properties	10%	20%

### ***For structures with an actual age of 30 years or more:***

	<b>Minimum</b>	<b>Maximum</b>
Required	10%	20%
Required when Utilities are Not Operable as Referenced in the Work Write-Up	15%	20%

The contingency reserve is a percentage of the costs of construction, repairs, and rehabilitation.

The contingency reserve account cannot be used to make additional improvements to the dwelling that are considered luxury items; however, it may be used to pay for added construction costs caused by deficiencies (health, safety and necessity) discovered during rehabilitation. A Request for Change Letter must be submitted with the applicable cost estimates.

### ***When Rehabilitation is Incomplete***

To allow use of contingency funds for improvements other than health and safety when rehabilitation is incomplete, MiMutual must determine that it is unlikely that any health or safety deficiency will be discovered, and that the mortgage will not exceed 95% of the appraised value.

### ***When Rehabilitation is Complete***

When the rehabilitation is complete, the borrower may use the contingency reserve account to fund additional improvements not included in the original work write-up. MiMutual must obtain a change order detailing the additional improvements, including the costs of labor and materials, and must inform the borrower in writing of the approval or rejection of the request to use funds from the contingency reserve account for additional improvements within 5 business days.

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**Architectural Exhibits/Work Write-Up Fee**

The HUD-approved Consultant must inspect the property and prepare the cost estimate and work write-up. They may opt to use an independent consultant such as a contractor to prepare the architectural exhibits or use an architect or engineer holding a valid state license.

The Work Write-Up refers to the report prepared by the 203(k) Consultant that identifies each work item to be performed and the specifications for completion of the repair.

Cost Estimate refers to a breakdown of the cost for each proposed work item, prepared by the 203(k) Consultant.

Based on the initial site visit and input from the buyer regarding their renovation plans, the consultant will prepare a concise document regarding the project's scope and specifications. Architectural exhibits, along with a detailed cost breakdown for each of the repair tasks, will also be included.

While the fees charged by an engineer or architect are not bound by the fee table below, they must still be in a reasonable range. The exact fee to be paid depends on the cost of the proposed repair work. The HUD stipulated fee amounts to be paid to the consultant are below:

<b>Fee</b>	<b>Cost of Repairs</b>
\$400	Less than \$7,500
\$500	\$7,501 - \$15,000
\$600	\$15,001 - \$30,000
\$700	\$30,001 - \$50,000
\$800	\$50,001 - \$75,000
\$900	\$75,001 - \$100,000
\$1,000	More than \$100,000

\*An additional \$25 can be charged for each additional unit in the property under the same case number.

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## **Fee Consultant**

If the Architectural Exhibits and the Work Write-Up were prepared by an independent consultant, architect, or licensed inspector, a [HUD-accepted Fee Consultant](#) must visit the site *prior to the appraisal* to ensure compliance with program requirements. The utilities should be turned on for this site review to take place; however, if the home is vacant and the utilities are not on, then a contingency reserve of at least 15% will be required. **This review does not apply if the Architectural Exhibits and Work Write-Up were completed by the Fee Consultant, and the utilities were on at the time of that inspection.** It is suggested that the borrower and 203(k) contractors, if already chosen, should attend the walk-through with the consultant.

The fee is as follows:

- **Initial Review Prior to Appraisal:**  
Cost of Repairs/Fee: < \$15,000 = \$100.00 // > \$15,001 but less than or equal to < \$30,000 = \$150.00 // > \$30,001 = \$200.00
- **Additional Unit Review:**  
\$50.00/unit.
- **Additional Review (Reinspection of the Same Unit):**  
\$50.00. When travel distance exceeds 30 miles round trip from the reviewer's place of business, a mileage charge (established by HUD Field Office) may be applied to the above charges, including toll road and other charges where applicable.

## *Inspections*

Inspections are performed by [HUD-approved Fee Consultants](#). The consultant is to use the architectural exhibits in order to make a determination of compliance or non-compliance. When the inspection is scheduled with a payment, the inspector is to indicate whether or not the work has been completed. Also, the inspector is to use the Draw Request form (Form HUD-9746-A). The first draw must not be scheduled until MiMutual has determined that the applicable building permits have been issued.

## *Architectural Exhibits*

The improvements must comply with HUD's Minimum Property Standards and all local codes and ordinances. The homebuyer may decide to employ an architect or a consultant to prepare the proposal. The homebuyer must provide MiMutual with the appropriate architectural exhibits that clearly show the scope of work to be accomplished. The following list of exhibits is required:

### **Plot Plan of the Site**

This is required only if a new addition is being made to the existing structure. It must show the location of the structure(s), walks, drives, streets, and other relevant details. It must also include finished grade elevations at the property corners and building corners, and show the required flood elevation.

### **Proposed Interior Plan of the Dwelling**

Must show where structural or planning changes are contemplated, including an addition to the dwelling. An existing plan is no longer required.

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**Work Write-up and Cost Estimate**

Any format may be used for these documents; however, quantity and the cost of each item must be shown. Also include a complete description of the work for each item (where necessary). The Rehabilitation Checklist should be used to ensure all work items are considered. Transfer the costs to the Draw Request (form [HUD-9746-A](#)).

Cost estimates must include labor and materials sufficient to complete the work by a contractor. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are nonstandard units.

The consultant who prepares the work write-up and cost estimate (or an architect, engineering or home inspection service) needs to inspect the property to assure: (1) there are no rodents, dry rot, termites and other infestation; (2) there are no defects that will affect the health and safety of the occupants; (3) the adequacy of the existing structural, heating, plumbing, electrical and roofing systems; and (4) the upgrading of thermal protection (where necessary).

The Consultant must be able to prepare the work write-up and cost estimate **without using contractor bids**. It is important for the Consultant to use cost estimates that are reasonable for the area where the property is located. If contractor bids come in higher than the cost estimates, the Consultant will need to discuss this situation with the borrower and the lender to reconcile the differences and to determine if the proposed repair escrow account may be too low to complete the job. At that point, if the Consultant agrees with the higher costs, an adjusted work write-up with supporting documentation is required to be submitted to MiMutual for consideration.

The work write-up and cost estimate are not required to match the contractor bids dollar-per-dollar. However, the work write-up and cost estimate are to be compared to confirm that all improvements/repairs have been addressed and to confirm the current market costs of materials and labor for the project.

*Properties Located in Texas*

Only loans that are not subject to Section 50(a)(6) of the Texas Constitution are eligible for 203(k) financing. In addition to all of the standard 203(k) requirements, loans must meet all criteria as described below.

**Work and Materials Contract**

The Work and Materials contract:

- Must be in writing
- Must be signed by both spouses (if married)
- Cannot be signed until at least 5 days after written loan application
- Must be signed at office of lender, title company, or attorney

**Self-Help**

Self-help of any kind is not permitted on 203(k) loans in Texas. The borrower may not purchase their own materials and/or appliances.

**Disbursements**

No funds may be issued to the borrower; therefore, two-party checks are not permitted.

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## *Holdbacks*

A 10% holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice. MiMutual (or our agent) may retain the holdback for a maximum of 35 calendar days, or the time period required by law to file a lien, whichever is longer, to ensure that no liens are placed on the property.

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# 5/1 ARM

*Unless otherwise stated, all of MiMutual's standard FHA underwriting guidelines apply. An ARM disclosure must be signed by the borrower at application that explains the terms of the mortgage.*

## Product Description

5/1 ARM available on a 30 year term (fully amortizing)

## Index

One Year Constant Maturity Treasury (CMT)

## Margin

2%

## Caps

### **Annual Adjustment Cap**

1%

### **Lifetime Cap**

5%

### **Initial Adjustment Cap**

1%

## Qualifying Rate

Note rate

## Maximum Loan Amount

Up to the FHA Statutory Mortgage Limit and no greater than \$424,100. High balance loans not permitted.

- For case numbers assigned on/after January 1, 2018, the maximum loan amount is \$453,100

## Financing Types

All financing types permitted, including streamline refinances.

## Collateral

1-4 unit properties permitted

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## High Limit Area Loans

Higher maximum limits are available on FHA loans in certain areas. These increased limits are available to qualified borrowers living in or moving to areas with qualifying loan amounts greater than \$275,665. The 2017 limits are effective with case numbers assigned on January 1, 2017, and valid through December 31. For case numbers assigned between January 1 and December 31, 2018, the qualifying amount is \$294,515. To determine the applicable county loan limit, check <https://entp.hud.gov/idapp/html/hicostlook.cfm>.

**Loan amounts greater than \$424,100 (or \$453,100 for case numbers assigned on/after January 1, 2018) must meet High Balance requirements.**

### Property Type

1-4 unit residences, PUDs, or FHA-approved condos (for Full 203(k) files, condo must be a site condo)

### Maximum Loan Limits

For case numbers assigned **on/after** January 1, 2017, the following limits apply:

- 1 unit up to \$636,150
- 2 units up to \$814,500
- 3 units up to \$984,525
- 4 units up to \$1,223,475

For case numbers assigned **on/after** January 1, 2018, the following limits apply:

- 1 unit up to \$679,650
- 2 units up to \$870,225
- 3 units up to \$1,051,875
- 4 units up to \$1,307,175

**NOTE:** Maximum Loan Limits are subject to county loan limits

### Loan Purpose

- Purchase
- Rate/Term refinance
- Streamline refinance
- Cash Out refinance (ineligible for 203(k))

### Term

30 year and 15 year fixed rate terms available

### LTV

FHA maximum LTVs are permitted

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## *Credit Score*

Minimum 580 mid score required

## *Underwriting Method*

Loan must be approved through AUS. FHA High Balance Loans are not eligible for manual underwriting, unless transaction is a streamline refinance (AUS not permitted).

## *Appraisal*

- A standard FHA appraisal will be required for 203(b) loans
- See the Full 203(k) chapter for [appraisal requirements](#) for 203(k) loans

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## 203(h) Mortgage Insurance for Disaster Victims

*Section 203(h) of the National Housing Act authorizes FHA to insure mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family Property.*

*Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) mortgages provided below, this specific guidance controls. 203(h) loans may be manually underwritten. \*The underwriting flexibilities are manually applied.*

### Program Eligibility

MiMutual must document and verify that the borrower's previous residence was in the disaster area, and was destroyed or damaged to such an extent that replacement is necessary. Documentation attesting to the damage of the previous house must accompany the mortgage application. The subject property being purchased need not be located in the area where the previous house was located.

#### Program Details

- 15 and 30 year fixed rate terms only. ARMs are not permitted.
- Refinances are not permitted.
- A section 203(h) loan may not be used in conjunction with a 203(k) loan.

#### AUS Requirements

All loans will be run directly through TOTAL Scorecard (not DU or LP) by MiMutual, and must receive an Eligible recommendation.

#### **203(h) Identification in FHA Connection**

Mortgage Insurance for Disaster Victims (Section 203(h)) utilizes a special Program ID in the FHA Connection Case Number assignment screen to identify these mortgages. The ADP code for Direct Endorsement Lenders on a 203(h) mortgage should be identified as a 703 ADP code. There is a Program ID in the FHA Connection Case Number Assignment Screen drop down option which is required to be listed as "(02) - Disaster Housing" in order for the 203(h) mortgages to be properly identified in the FHA Connection system.

### Borrower Eligibility

#### Application Deadline

The FHA Case Number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided.

#### Principal Residence

The subject property must be the borrower's primary residence.

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## **Credit Score**

The borrower must have a minimum 580 MDCS.

## **CAIVRS**

Situations involving presidentially-declared disasters receive an exception to CAIVRS. If the applicant is reported in CAIVRS, but the credit report indicates the loan was current prior to the presidentially-declared disaster, and any delinquency or claim paid can be related to the effects of the presidentially-declared disaster, the applicant may be considered eligible.

**NOTE:** *The guiding principle is to provide FHA financing to disaster victims who can make mortgage payments, but may not be able to provide the traditional documentation to support their ability to repay the loan.*

## **Property Eligibility**

The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary. A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency ([FEMA](#)).

### **Previous Residence**

Evidence the borrower's permanent previous residence was located in the affected area can be documented by:

- A valid driver's license, or
- A voter registration card, or
- Utility bills

Evidence of the destruction of the borrower's previous residence can be documented by:

- An insurance report, or
- An inspection report by an independent fee inspector or government agency

### **Subject Property**

The purchased or reconstructed property must be a Single Family Property or a unit in an FHA-approved Condominium Project.

## **Maximum LTV**

The maximum LTV ratio limit is 100% of the adjusted value. The borrower is not required to make the Minimum Required Investment (MRI).

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## *Funds to Close*

Closing costs and prepaid expenses may not be financed. They must be paid either:

- by the applicant in cash, or
- through a lender credit, or
- through seller contributions (max 6%), or
- with gift funds.

## *Underwriting*

We must make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document our attempts. Where traditional documentation is unavailable, MiMutual may use alternative documentation that is reasonable and prudent to rely upon in underwriting the mortgage.

### **Credit**

Credit may be manually underwritten. For borrowers with derogatory credit, MiMutual may consider the borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to the disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

### **Income**

If prior employment cannot be verified because records were destroyed by the disaster, and the borrower is in the same or similar field, then FHA will accept W2s and tax returns from the IRS to confirm prior employment and income.

MiMutual may also include short-term employment obtained following the disaster in the calculation of effective income.

### **Liabilities**

When a borrower is purchasing a new house, MiMutual may exclude the mortgage payment on the destroyed residence located in a PDMDA from the borrower's liabilities. To exclude the mortgage payments from the liabilities, MiMutual must:

- Obtain information that the borrower is working with the servicing mortgagee to appropriately address their mortgage obligation; and
- Apply any property insurance proceeds to the mortgage of the damaged house.

### **Assets**

If traditional asset documentation is not available, MiMutual may use statements downloaded from the borrower's financial institution website to confirm the borrower has sufficient assets to close the mortgage.

### **Housing Payment History**

MiMutual may disregard any late payments on a previous obligation on a property that was destroyed or damaged in the disaster, where the late payments were a result of the disaster and the borrower was not delinquent on their mortgage at the time of the disaster.

MiMutual may justify approval if the borrower was three or more months delinquent, if extenuating circumstances are documented.

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## Automated Underwriting Systems / TOTAL Scorecard

### *Approve/Eligible Risk Classification*

If the AUS (using TOTAL Mortgage Scorecard) rates the mortgage loan application as an Accept or Approve based on the analysis of the credit, capacity to repay, and certain other loan characteristics, the loan is eligible for FHA's insurance endorsement provided:

- The data entered into the AUS is true, complete, properly documented, and accurate; and
- The entire loan package meets all other FHA requirements (except for those specifically not required because the loan was evaluated by an AUS). FHA requires adherence to all eligibility rules and the documentation requirements described elsewhere in the TOTAL Mortgage Scorecard User Guide and HUD Handbook 4000.1.

### *Approve/Ineligible Recommendation*

The AUS may also provide Approve/Ineligible recommendations. Loans receiving this recommendation have been determined to have met FHA's TOTAL Mortgage Scorecard threshold, but do not meet certain FHA eligibility requirements. The AUS findings will provide detailed information advising why the loan did not meet FHA's eligibility requirements, such as: loan amount exceeds the FHA maximum, property type submitted does not correspond to the Section of the Act selected in the AUS, insufficient reserves on a 3- or 4-unit property, insufficient funds for closing, etc.

Loans that receive a recommendation of Approve/Ineligible may still be eligible for FHA insurance. To achieve eligibility status, MiMutual must analyze the findings report and determine that the reason for the ineligibility is one that can be resolved in a manner complying with FHA underwriting requirements. Loans that receive a recommendation of Approve/Ineligible will receive the benefit of all other Accept or Approve documentation and credit policy revisions. The broker may also need to correct the issue(s) that caused the loan to be ineligible, and resubmit the loan to attempt to obtain an Accept or Approve recommendation (such as when a mortgage amount exceeds statutory limits).

When the reason for ineligibility cannot be corrected in the AUS, MiMutual may underwrite the mortgage using the following requirements for an Approved mortgage, but must resolve the reason for ineligibility in accordance with FHA requirements, and must provide an explanation of the resolution in the remarks section of form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

### *Refer/Eligible Classification*

MiMutual must conduct a manual underwriting review according to FHA requirements for all loan applications that generate a Refer recommendation, or any result other than those described above. The MiMutual underwriter must determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements. It is FHA policy that no borrower will be denied a FHA insured mortgage loan solely on the basis of a risk assessment generated by the TOTAL Mortgage Scorecard.

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## *System Overrides and Manual Downgrades*

MiMutual must downgrade and manually underwrite any mortgage that received an Accept recommendation if:

- The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Scorecard;
- Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage;
- The borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts;
- The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- The case number assignment date is within three years of the date of the transfer of title through a pre-foreclosure sale (short sale);
- The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- The mortgage payment history, for any mortgage tradeline reported on the credit report used to score the application, requires a downgrade;
- The borrower has undisclosed mortgage debt that requires a downgrade; or
- Effective Income from the business shows a greater than 20% decline over the analysis period

If a determination is made that the mortgage must be manually downgraded, MiMutual must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting downgraded mortgage.

A system override and/or manual downgrade of an Accept or Approve to a Refer classification may be required if a particular loan application variable is revealed during loan processing.

A system override occurs when a loan application variable triggers a requirement (a "review rule") that an underwriter review the loan file. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an Accept or Approve. Both system overrides and manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, when a case file cannot be documented according to the AUS / FHA TOTAL Scorecard Findings, and for other reasons including the unlikely failure of the TOTAL Mortgage Scorecard or AUS to recognize a derogatory credit variable. Unless specifically permitted to continue to use the Accept or Approve documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, MiMutual must document as a Refer risk class and is accountable for the credit and ratio warranties on these loans.

## *Upfront Disclosure Policy*

At the time of loan submission, MiMutual requires evidence that initial disclosures were delivered to the borrower within compliance. The date indicated on the disclosures must reflect that they were prepared / delivered in compliant timeframes. The broker must submit copies of all HUD/FHA, federal, state, and local disclosures which will be monitored on every transaction. MiMutual complies with federal, state and local policies and procedures such as Fair Housing, ECOA, SAFE ACT, RESPA, HUD/FHA's Appraiser Independence guidelines, MDIA, etc.

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## Mortgage Insurance Premium Charts

FHA collects a one-time Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium, also referred to as the periodic or monthly MIP, which is collected in monthly installments. The UFMIP must be entirely financed into the mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are added to the total cash settlement requirements. If the UFMIP is financed into the mortgage, the entire amount is to be financed except for any amount less than \$1.00. The mortgage amount must be rounded down to the nearest whole dollar amount, regardless of whether the UFMIP is financed or paid in cash. The annual (or periodic) MIP is based on the LTV ratio, base loan amount, and the term of the mortgage.

### For Case Numbers Assigned on/after January 26, 2015

<b>Upfront Mortgage Insurance Premium</b>			
All Mortgages: 175 basis points (bps) (1.75%) of the Base Loan Amount			
Exception: Streamline Refinance and Simple Refinance mortgages used to refinance a previous FHA-endorsed mortgage on or before May 31, 2009			

<b>Annual Mortgage Insurance Premium</b>			
Applies to all mortgages except Streamline Refinance and Simple Refinance mortgages used to refinance a previous FHA-endorsed mortgage on or before May 31, 2009			
<b>Mortgage Term of &gt; 15 Years</b>			
<b>Base Loan Amount</b>	<b>LTV</b>	<b>MIP (bps)</b>	<b>Duration</b>
Less than or equal to \$625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage Term
	> 95.00%	85	Mortgage Term
Greater than \$625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage Term
	> 95.00%	105	Mortgage Term
<b>Mortgage Term of ≤ 15 Years</b>			
<b>Base Loan Amount</b>	<b>LTV</b>	<b>MIP (bps)</b>	<b>Duration</b>
Less than or equal to \$625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage Term
Greater than \$625,500	≤ 78.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage Term

### Streamline Refinance, Simple Refinance

<b>For refinance of previous mortgage endorsed on/before May 31, 2009</b>			
UFMIP: 1 (bps) (0.01%) All Mortgages			
<b>All Mortgage Terms</b>			
<b>Base Loan Amount</b>	<b>LTV</b>	<b>Annual MIP (bps)</b>	<b>Duration</b>
All	≤ 90%	55	11 years
	> 90%	55	Mortgage Term
For mortgages where FHA does not require an appraisal, the value from the previous mortgage is used to calculate the LTV.			

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*Retired MIP Charts*

The following retired MIP Charts are to be used in determining the Net Tangible Benefit on streamline refinance transactions. **These MIP factors are not to be used for qualifying.**

**Case Numbers Assigned on/after June 3, 2013**

Term > 15 Years			
Base Loan Amount	LTV	Upfront MIP	Annual MIP
≤ \$625,500	≤ 95.00%	1.75%	130bps
≤ \$625,500	> 95.00%	1.75%	135bps
> \$625,500	≤ 95.00%	1.75%	150bps
> \$625,500	> 95.00%	1.75%	155bps
Term ≤ 15 Years			
≤ \$625,500	≤ 90.00%	1.75%	45bps
≤ \$625,500	> 90.00%	1.75%	70bps
> \$625,500	≤ 90.00%	1.75%	70bps
> \$625,500	> 90.00%	1.75%	95bps

**Case Numbers Assigned on/after April 1, 2013**

Term > 15 Years			
Base Loan Amount	LTV	Previous MIP	New MIP
≤ \$625,500	≤ 95.00%	120bps	130bps
≤ \$625,500	> 95.00%	125bps	135bps
> \$625,500	≤ 95.00%	145bps	150bps
> \$625,500	> 95.00%	150bps	155bps
Term ≤ 15 Years			
≤ \$625,500	78.01% - 90.00%	35bps	45bps
≤ \$625,500	> 90.00%	60bps	70bps
> \$625,500	78.01% - 90.00%	60bps	70bps
> \$625,500	> 90.00%	85bps	95bps

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**Case Numbers Assigned on/after June 11, 2012**

REFERENCE CHART FOR UPFRONT/ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES WHERE THE PREVIOUS CASE WAS ENDORSED AFTER MAY 31, 2009) WITH TERMS >15 YEARS			
Upfront Premium	Base Loan Amount	LTV	Annual Premium*
1.75%	≤ \$625,500	> 95.00%	1.25%
1.75%	≤ \$625,500	≤ 95.00 %	1.20%
1.75%	Above \$625,500	> 95.00%	1.50%
1.75%	Above \$625,500	≤ 95.00 %	1.45%
TERMS ≤ 15 YEARS			
Upfront Premium	Base Loan Amount	LTV	Annual Premium*
1.75%	≤ \$625,500	> 90.00%	.60%
1.75%	≤ \$625,500	≤ 90.00 %	.35%
1.75%	Above \$625,500	> 90.00%	.85%
1.75%	Above \$625,500	≤ 90.00 %	.60%

\* If LTV is ≤ 78% on a loan with a 15-year term or less, no annual (monthly) MIP will be collected *for case numbers assigned prior to June 3<sup>rd</sup>, 2013.*

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