





3.7.2	Revolving Account Payments .....	82
3.7.3	Installment Debt.....	82
3.7.4	Business Debt .....	82
3.7.5	Student Loans .....	83
3.7.6	Past Due, Collections and Charge-Off Accounts.....	84
3.7.7	Loans Secured by Retirement Accounts .....	84
3.7.8	Open-End Lines of Credit (HELOCS) .....	85
3.7.9	Deferred Payment Accounts .....	85
3.7.10	Contingent Liabilities.....	85
3.7.11	Housing Payment History (VOM/VOR) .....	87
3.7.12	Tax Debt and Tax Liens .....	88
3.7.13	Judgments, Garnishments and Liens.....	88
3.7.14	Alimony Paid by the Borrower .....	89
<b>3.8</b>	<b>VERIFICATION OF EMPLOYMENT .....</b>	<b>89</b>
3.8.1	Verbal Verification of Employment (VOE).....	89
3.8.2	Written Verification of Employment (VOE) .....	90
3.8.3	Self-Employment Confirmation .....	91
3.8.4	Paystubs .....	92
3.8.5	W-2 Forms.....	92
3.8.6	Tax Return .....	93
3.8.7	4506-T .....	94
<b>3.9</b>	<b>INCOME ANALYSIS .....</b>	<b>94</b>
3.9.1	Stable Monthly Income .....	95
3.9.2	Income Documentation.....	95
3.9.3	Calculating Income.....	96
3.9.4	Acceptable Types of Income.....	96
3.9.5	Unacceptable Types of Income .....	97
3.9.6	Furlough Income.....	97
3.9.7	Commission Income.....	97
3.9.8	Overtime Income .....	98
3.9.9	Bonus Income.....	98
3.9.10	Part-Time and Seasonal Income .....	99
3.9.11	Temporary Leave Income .....	99
3.9.12	Retirement, Government Annuity and Pension Income .....	100
3.9.13	Trust Income .....	100
3.9.14	Social Security Income.....	100
3.9.15	Child Support, Alimony, Maintenance .....	101
3.9.16	Interest and Dividends .....	101
3.9.17	Unreimbursed Business Expenses .....	102
3.9.18	Self-Employed Income.....	102
3.9.19	Business Structures of Self-Employed Borrowers.....	103
3.9.20	Employment by Relatives or Transaction Participants.....	106
3.9.21	Foreign Income .....	106

3.9.22	Notes Receivable, Installment Sales, and Land Contracts.....	106
3.9.23	Unemployment Income.....	107
3.9.24	Rental Income.....	107
3.9.25	Tip Income .....	108
3.9.26	Future Income/Employment Offers .....	109
3.9.27	Qualifying with Future Income.....	109
<b>3.10</b>	<b>QUALIFYING RATIOS.....</b>	<b>110</b>
3.10.1	Housing Payment Ratios .....	110
3.10.2	Debt-To-Income Ratios.....	111
3.10.3	Standard Qualifying Ratios For Conforming Loans.....	112
3.10.4	Loan-to-Value Ratios .....	112
<b>3.11</b>	<b>ASSETS AND RESERVES .....</b>	<b>112</b>
3.11.1	Down Payment Requirements.....	113
3.11.2	Reserves .....	114
3.11.3	Prepaid Costs.....	115
3.11.4	Acceptable Sources of Assets .....	115
3.11.5	Unacceptable Sources of Assets.....	120
3.11.6	1031 Tax Deferred Exchanges.....	120
3.11.7	Bank Statements.....	122
3.11.8	Verification of Deposit.....	124
3.11.9	Use of Business Funds .....	125
3.11.10	Earnest Money .....	125
3.11.11	Gifts.....	126
3.11.12	Retirement Accounts.....	128
3.11.13	Stocks and Bonds .....	128
3.11.14	Real Estate Proceeds .....	129
<b>3.12</b>	<b>CONTRIBUTIONS.....</b>	<b>129</b>
3.12.1	Interested Party Contributions (IPCs).....	129
3.12.2	Inducements to Purchase.....	130
3.12.3	Eligible Contributions .....	130
3.12.4	Ineligible Contributions .....	132
3.12.5	Seller Concessions.....	132
3.12.6	Buydown as IPC .....	132
<b>CHAPTER 4.</b>	<b>PROPERTY REQUIREMENTS.....</b>	<b>135</b>
<b>4.1</b>	<b>PROPERTY STANDARDS.....</b>	<b>135</b>
4.1.1	Eligible Property Types .....	135
4.1.2	Ineligible Property Types .....	135
4.1.3	Occupancy Status .....	135
4.1.4	Property Condition.....	137
4.1.5	Title.....	138
4.1.6	Ownership History/Chain of Title .....	139

4.1.7	Property Flipping .....	139
4.1.8	Properties Subject To Age Restrictions .....	140
4.1.9	Properties Subject to Occupancy Restrictions .....	141
4.1.10	Properties Subject to Resale Restrictions (Income).....	142
4.1.11	Insurance .....	142
<b>4.2</b>	<b>CONDOMINIUMS .....</b>	<b>143</b>
4.2.1	Site Condos.....	144
4.2.2	General Condo Eligibility Requirements .....	144
4.2.3	Ineligible Projects .....	144
4.2.4	Completion.....	146
4.2.5	Multiple Unit Ownership .....	146
4.2.6	Commercial Use .....	146
4.2.7	Right of First Refusal .....	147
4.2.8	Adverse Environmental Factors .....	147
4.2.9	Litigation.....	147
4.2.10	Delinquent HOA Dues .....	148
4.2.11	Insurance Requirements .....	148
4.2.12	Pooled Insurance .....	149
4.2.13	Condo Warrant Table.....	149
4.2.14	Condo Delivery Code Chart.....	151
<b>4.3</b>	<b>PLANNED UNIT DEVELOPMENTS (PUD) .....</b>	<b>152</b>
4.3.1	Insurance—PUDs .....	153
<b>4.4</b>	<b>COOPERATIVES .....</b>	<b>153</b>
4.4.1	Eligible Products.....	153
4.4.2	General Eligibility Criteria.....	153
4.4.3	Required Documentation for Cooperative Project Approval .....	154
4.4.4	Ineligible Cooperative Projects.....	154
4.4.5	Presale and Owner Occupancy Guidelines .....	155
4.4.6	Commercial Use .....	155
4.4.7	Insurance—Cooperative Projects .....	155
4.4.8	Property Hazard Insurance.....	156
4.4.9	Fidelity Bond Insurance.....	156
4.4.10	Flood Insurance.....	156
4.4.11	Business Income Insurance (Rent Loss/Business Continuation) .....	156
4.4.12	Recognition Agreement .....	157
4.4.13	Transfer Fees (Flip Tax).....	157
4.4.14	Litigation.....	157
4.4.15	Exposure.....	158
4.4.16	Financial Stability.....	158
4.4.17	Current Operating Budget.....	159
4.4.18	Underlying Blanket Mortgage.....	159
4.4.19	Pro Rata Share.....	159

4.4.20	Degree of Development.....	159
4.4.21	Subsidies/Tax Abatements.....	160
<b>4.5</b>	<b>MANUFACTURED HOUSING.....</b>	<b>160</b>
4.5.1	Eligibility and General Requirements.....	160
4.5.2	Manufactured Homes with Structural Modifications .....	162
4.5.3	Age of Home Requirements.....	163
4.5.4	Site .....	164
4.5.5	HUD Certification Label.....	164
4.5.6	Required Reports and Certifications.....	164
4.5.7	Appraisal Requirements.....	165
<b>4.6</b>	<b>CONSTRUCTION-TO-PERMANENT LENDING.....</b>	<b>165</b>
4.6.1	Construction-to-Permanent Financing .....	165
4.6.2	Construction-to-Permanent Treated as a Purchase Transaction .....	166
4.6.3	Construction-to-Permanent Treated as a Rate and Term Refinance.....	166
4.6.4	Construction-to-Permanent Treated as a Cash-Out Refinance.....	167
4.6.5	Acquisition Cost Documentation .....	167
<b>4.7</b>	<b>REO/REPO .....</b>	<b>168</b>
<b>4.8</b>	<b>RURAL PROPERTY .....</b>	<b>168</b>
4.8.1	Rural and Underserved Counties .....	169
<b>CHAPTER 5.</b>	<b>APPRAISAL REQUIREMENTS.....</b>	<b>170</b>
<b>5.1</b>	<b>APPRAISER INDEPENDENCE .....</b>	<b>170</b>
<b>5.2</b>	<b>AGENCY GUIDELINES—FANNIE MAE .....</b>	<b>170</b>
5.2.1	Supervisory Appraiser .....	171
<b>5.3</b>	<b>TRANSFER OF APPRAISAL .....</b>	<b>172</b>
<b>5.4</b>	<b>PROPERTY APPRAISAL REQUIREMENTS .....</b>	<b>172</b>
5.4.1	Disclosure of Contract Amendments to Appraiser.....	173
<b>5.5</b>	<b>CHANGES IN VALUE .....</b>	<b>173</b>
<b>5.6</b>	<b>COMPARABLE SALES.....</b>	<b>174</b>
5.6.1	Rural Areas.....	174
5.6.2	New Projects/New Subdivision Requirements .....	174
5.6.3	New Construction .....	175
5.6.4	Marketability/Predominant Value .....	175
5.6.5	Lot Size (Acreage).....	175
5.6.6	Restrictions .....	175
5.6.7	Appraisal Reports .....	176
5.6.8	FNMA 1004/FHLMC 70: Uniform Residential Appraisal Report (URAR) ..	176
5.6.9	FNMA/FHLMC Form 2055: Exterior-Only Inspection Report .....	177
5.6.10	FNMA 1004C/FHLMC 70B: Manufactured Home Appraisal Report .....	177
5.6.11	FNMA 1073/FHLMC 465: Individual Condominium Report .....	177

5.6.12	FNMA 1075/FHLMC 466: Exterior-Only Inspection, Condominium .....	177
5.6.13	FNMA 2090: Individual Cooperative Appraisal Report.....	178
5.6.14	FNMA 2095: Exterior-Only Inspection, Cooperative Appraisal Report.....	178
5.6.15	FNMA 1025/FHLMC 72: Small Res. Income Property Appraisal Report.....	178
5.6.16	FNMA 1004D/FHLMC 442: Appraisal Update and/or Completion Report.....	179
5.6.17	FNMA 1007/FHLMC 1000: Single Family Comparable Rent Schedule..	179
5.6.18	FNMA 216/FHLMC 998: Operating Income Statement.....	179
5.6.19	FNMA Form 2075/FHLMC Form 2070 .....	179
<b>CHAPTER 6.</b>	<b>CONFORMING PRODUCTS.....</b>	<b>181</b>
6.1	FIXED RATE MORTGAGES (FRM).....	181
6.2	ADJUSTABLE RATE MORTGAGES (ARM).....	181
6.3	CONSTRUCTION-TO-PERMANENT.....	181
6.4	INVESTORS .....	181
<b>CHAPTER 7.</b>	<b>NON-CONFORMING PRODUCTS .....</b>	<b>182</b>
7.1	PRODUCTS .....	182
<b>CHAPTER 8.</b>	<b>UNDERWRITING FHA LOANS.....</b>	<b>183</b>
8.1	LOAN PROGRAM GUIDELINES.....	183
8.1.1	FHA Loan Programs.....	183
8.2	UNDERWRITING .....	184
8.2.1	Automated Underwriting with TOTAL Scorecard .....	185
8.2.2	Manual Underwriting .....	185
8.3	CASE NUMBER ASSIGNMENT .....	185
8.4	BORROWER INELIGIBILITY .....	186
8.4.1	Credit Alert Verification Reporting System .....	186
8.4.2	HUD Limited Denial of Participation List and Government Services Administration System for Award Management.....	186
8.5	FRAUD DETECTION/FRAUD PREVENTION REPORT .....	187
8.6	CONFLICTS OF INTEREST.....	187
8.7	BORROWER ELIGIBILITY .....	187
8.7.1	Co-Borrower Requirements.....	188
8.7.2	Non-Occupant Co-Borrower .....	188
8.8	TYPES OF FINANCING.....	188
8.8.1	Purchase Transactions.....	188
8.8.2	Refinance Transactions.....	189
8.8.3	Repair Escrows .....	191

8.8.4	Construction-to-Permanent Loan.....	192
8.8.5	Subordinate Financing .....	192
8.8.6	Identity-of-Interest Transactions.....	193
8.8.7	Ineligible Transactions.....	194
<b>8.9</b>	<b>MAXIMUM LOAN AMOUNT .....</b>	<b>194</b>
<b>8.10</b>	<b>INTEREST CREDIT .....</b>	<b>195</b>
<b>8.11</b>	<b>PROPERTY ELIGIBILITY.....</b>	<b>195</b>
8.11.1	Property Types .....	195
8.11.2	Property Requirements.....	196
8.11.3	New Construction versus Existing.....	196
8.11.4	Condominium/PUD Projects .....	197
8.11.5	Manufactured Homes .....	198
8.11.6	Property Flipping .....	198
8.11.7	Occupancy Types .....	199
8.11.8	Principal Residence Conversion.....	199
8.11.9	Multiple Property Ownership.....	199
<b>8.12</b>	<b>CREDIT .....</b>	<b>200</b>
8.12.1	Credit Score and Credit Requirements .....	200
8.12.2	Age of Credit Documents.....	202
8.12.3	Derogatory Credit .....	202
8.12.4	Credit Inquiries and Undisclosed Debt .....	205
8.12.5	Disputed Tradelines .....	206
8.12.6	Verification of Previous Mortgage/Rent History.....	207
<b>8.13</b>	<b>LIABILITIES.....</b>	<b>208</b>
8.13.1	Contingent Liabilities.....	208
8.13.2	Deferred Obligations.....	208
8.13.3	Installment Debt, Revolving Charge Accounts, Lines of Credit .....	209
8.13.4	Payoff or Paydown of Debt for Qualification.....	210
8.13.5	Alimony and Child Support .....	210
<b>8.14</b>	<b>ASSETS.....</b>	<b>210</b>
8.14.1	Asset Verification.....	210
8.14.2	Cash on Hand .....	211
8.14.3	Source of Funds.....	211
8.14.4	Earnest Money Deposits .....	212
8.14.5	Gifts .....	212
<b>8.15</b>	<b>RESERVES.....</b>	<b>213</b>
<b>8.16</b>	<b>IPCS—SELLER CONTRIBUTIONS .....</b>	<b>213</b>
<b>8.17</b>	<b>DOWN PAYMENT ASSISTANCE PROGRAMS.....</b>	<b>213</b>
<b>8.18</b>	<b>EMPLOYMENT AND INCOME VALIDATION .....</b>	<b>214</b>
8.18.1	Income Documentation .....	214



8.18.2	Salaried Employees and Wage Earners .....	214
8.18.3	Self-Employed.....	215
8.18.4	Stability of Income and Employment .....	216
8.18.5	Tax Transcripts and 4506-T .....	216
8.18.6	Other Income.....	216
8.18.7	Disability Income .....	217
8.18.8	Rental Income.....	218
<b>8.19</b>	<b>QUALIFYING RATIOS (MANUAL UNDERWRITING) .....</b>	<b>218</b>
<b>8.20</b>	<b>APPRAISAL REQUIREMENTS .....</b>	<b>219</b>
8.20.1	Other Inspection Requirements.....	220
8.20.2	Transferred in Appraisals.....	220
<b>8.21</b>	<b>ESCROWS.....</b>	<b>220</b>
<b>8.22</b>	<b>REAL ESTATE COMMISSIONS.....</b>	<b>221</b>
<b>8.23</b>	<b>RENEGOTIATED SALES CONTRACTS.....</b>	<b>221</b>
<b>8.24</b>	<b>MORTGAGE INSURANCE .....</b>	<b>221</b>
<b>8.25</b>	<b>TITLE COMMITMENTS .....</b>	<b>222</b>
<b>CHAPTER 9.</b>	<b>UNDERWRITING VA LOANS .....</b>	<b>223</b>
<b>9.1</b>	<b>VA LENDERS HANDBOOK.....</b>	<b>223</b>
<b>9.2</b>	<b>LOAN PROGRAM GUIDELINES .....</b>	<b>223</b>
9.2.1	Lender Certification.....	223
<b>9.3</b>	<b>AUTOMATED UNDERWRITING.....</b>	<b>223</b>
9.3.1	AUS—Desktop Underwriter or Loan Product Advisor.....	224
9.3.2	Case Number.....	224
<b>9.4</b>	<b>VALIDATION OF QUALIFIED PARTIES.....</b>	<b>224</b>
9.4.1	Veterans Eligible for VA Financing.....	224
9.4.1	Certificate of Eligibility.....	225
9.4.2	CAIVRS.....	225
9.4.3	Entitlement.....	225
<b>9.5</b>	<b>QUALIFYING RATIOS.....</b>	<b>226</b>
<b>9.6</b>	<b>BORROWER ELIGIBILITY .....</b>	<b>227</b>
9.6.1	Eligible Borrowers.....	227
9.6.2	Ineligible Borrowers.....	228
9.6.3	Non-Occupant Co-Borrower .....	228
<b>9.7</b>	<b>TYPES OF FINANCING .....</b>	<b>228</b>
9.7.1	Purchase.....	228
9.7.2	Refinances and the Protecting Veterans from Predatory Lending Act of 2018.....	228
9.7.3	Refinances—Type I and Type II Cash-Out.....	229

9.7.4	VA Interest Rate Reduction Refinance Loan (IRRRL) .....	231
9.7.5	Secondary Financing .....	232
9.7.6	Joint Loans.....	232
<b>9.8</b>	<b>LOAN PURPOSE.....</b>	<b>233</b>
<b>9.9</b>	<b>MAXIMUM LOAN AMOUNT AND LTV .....</b>	<b>234</b>
<b>9.10</b>	<b>PROPERTY ELIGIBILITY.....</b>	<b>234</b>
9.10.1	Property Types .....	234
9.10.2	Property Requirements .....	235
9.10.3	Property Inspections .....	235
9.10.4	Manufactured Homes .....	237
9.10.5	Condominiums/PUD Projects.....	238
9.10.6	Condo Review/Warranty.....	238
9.10.7	Construction/Permanent Home Loans .....	238
<b>9.11</b>	<b>OCCUPANCY.....</b>	<b>239</b>
9.11.1	Principal Residence Conversion to Investment Property .....	239
9.11.2	Other Rental Income .....	239
9.11.3	Multiple Property Ownership.....	240
<b>9.12</b>	<b>CREDIT.....</b>	<b>240</b>
9.12.1	Age of Documents .....	240
9.12.2	Credit History .....	240
9.12.3	AUS Manual Downgrade.....	240
9.12.4	Credit Requirements—Non-Purchasing Spouse.....	241
9.12.5	Disputed Accounts.....	241
9.12.6	Derogatory Credit.....	241
9.12.7	Third-Party Verifications.....	242
<b>9.13</b>	<b>ASSETS .....</b>	<b>242</b>
9.13.1	Asset Documentation.....	243
<b>9.14</b>	<b>RESERVES .....</b>	<b>243</b>
<b>9.15</b>	<b>IPCS—SELLER CONTRIBUTIONS .....</b>	<b>244</b>
<b>9.16</b>	<b>LIABILITIES.....</b>	<b>244</b>
9.16.1	Child Care Expenses .....	245
<b>9.17</b>	<b>EMPLOYMENT AND INCOME .....</b>	<b>245</b>
9.17.1	Current Employment Less Than 12 months .....	245
9.17.2	Active-Duty Military Income.....	246
9.17.3	Frequent Changes of Employment.....	246
9.17.4	Income.....	246
9.17.5	Income Documentation .....	247
9.17.6	Residual Income Requirements .....	248
<b>9.18</b>	<b>APPRAISALS.....</b>	<b>249</b>

9.18.1	Appraisal Requirements.....	250
9.18.2	Renegotiated Sales Contracts.....	251
<b>9.19</b>	<b>ESCROWS.....</b>	<b>252</b>
<b>9.20</b>	<b>REAL ESTATE COMMISSION .....</b>	<b>252</b>
<b>9.21</b>	<b>FUNDING FEE.....</b>	<b>252</b>
<b>9.22</b>	<b>DOWN PAYMENT AND CLOSING COSTS.....</b>	<b>254</b>
9.22.1	Down Payment.....	254
9.22.2	Allowable Closing Costs.....	254
9.22.3	Non-Allowable Borrower-Paid Closing Costs.....	255
<b>9.23</b>	<b>TITLE COMMITMENT .....</b>	<b>256</b>
<b>CHAPTER 10.</b>	<b>UNDERWRITING USDA LOANS .....</b>	<b>257</b>
<b>10.1</b>	<b>LOAN PROGRAM GUIDELINES .....</b>	<b>257</b>
<b>10.2</b>	<b>AUTOMATED UNDERWRITING.....</b>	<b>258</b>
10.2.1	Submission to RD for Conditional Commitment.....	258
<b>10.3</b>	<b>DISCLOSURES .....</b>	<b>259</b>
<b>10.4</b>	<b>VALIDATION OF QUALIFIED PARTIES.....</b>	<b>259</b>
10.4.1	Borrowers Eligible for Government Financing .....	259
<b>10.5</b>	<b>LDP/GSA LISTS .....</b>	<b>259</b>
<b>10.6</b>	<b>USDA INCOME REQUIREMENTS.....</b>	<b>259</b>
10.6.1	USDA Income Terminology .....	260
10.6.2	Calculating Income.....	260
10.6.3	Adjusted Annual Income.....	260
10.6.4	Repayment Income .....	261
<b>10.7</b>	<b>UP-FRONT LOAN GUARANTEE FEE.....</b>	<b>262</b>
10.7.1	Up-Front Fee for Purchase Loans .....	262
10.7.2	Up-Front Fee for Refinance Loans .....	262
10.7.3	Calculating the Up-Front Loan Guarantee Fee .....	262
<b>10.8</b>	<b>ANNUAL FEE .....</b>	<b>262</b>
<b>10.9</b>	<b>HOMEBUYER EDUCATION .....</b>	<b>263</b>
<b>10.10</b>	<b>QUALIFYING RATIOS.....</b>	<b>263</b>
<b>10.11</b>	<b>BORROWER ELIGIBILITY .....</b>	<b>264</b>
10.11.1	Eligible Borrowers .....	264
10.11.2	Ineligible Borrowers .....	264
10.11.3	Residency Status .....	265
10.11.4	Signatures.....	266
<b>10.12</b>	<b>TYPES OF FINANCING.....</b>	<b>266</b>
10.12.1	Purchase .....	266

10.12.2	Refinance .....	266
10.12.3	Secondary Financing .....	268
10.12.4	Ineligible Types of Financing .....	268
10.12.5	Financed Closing Costs .....	269
10.12.6	Combination Construction to Permanent Loans .....	269
<b>10.13</b>	<b>LOAN PURPOSE .....</b>	<b>269</b>
10.13.1	Eligible Loan Purposes .....	269
10.13.2	Ineligible Loan Purposes .....	270
<b>10.14</b>	<b>MAXIMUM LOAN AMOUNTS.....</b>	<b>270</b>
<b>10.15</b>	<b>PROPERTY ELIGIBILITY.....</b>	<b>271</b>
10.15.1	Existing Property.....	271
10.15.2	Newly Constructed Property .....	272
10.15.3	Property Types .....	272
10.15.4	USDA Property Site Requirements.....	273
10.15.5	Property Inspections.....	274
10.15.6	Condo Review/Warranty.....	276
10.15.7	Hazard and Flood Insurance .....	276
<b>10.16</b>	<b>OCCUPANCY .....</b>	<b>277</b>
10.16.1	Occupancy .....	277
10.16.2	Multiple Property Ownership.....	277
<b>10.17</b>	<b>CREDIT .....</b>	<b>278</b>
10.17.1	Age of Documents.....	278
10.17.2	Credit Score.....	278
10.17.3	Credit Requirements—Non-Purchasing Spouse.....	278
10.17.4	Derogatory Credit .....	278
10.17.5	Disputed Accounts .....	279
10.17.6	Verification of Rent History.....	279
<b>10.18</b>	<b>ASSETS.....</b>	<b>280</b>
10.18.1	Non-Retirement Assets to Consider.....	280
10.18.2	Assets Not Considered .....	281
10.18.3	Market and Cash Value of Assets .....	281
10.18.4	Assets Disposed of for Less than Fair Market Value .....	281
10.18.5	Gifts .....	282
<b>10.19</b>	<b>RESERVES.....</b>	<b>282</b>
<b>10.20</b>	<b>IPCS.....</b>	<b>282</b>
<b>10.21</b>	<b>APPRAISALS.....</b>	<b>282</b>
<b>10.22</b>	<b>ESCROWS.....</b>	<b>283</b>
10.22.1	Repair Escrows .....	284
<b>10.23</b>	<b>REAL ESTATE COMMISSION .....</b>	<b>284</b>

10.24	RENEGOTIATED SALES CONTRACT .....	284
CHAPTER 11.	HOME EQUITY CONVERSION MORTGAGES .....	286
11.1	OVERVIEW .....	286
11.2	GENERAL CHARACTERISTICS OF A HECM.....	286
11.2.1	Transaction Types .....	287
11.2.2	Principal Limit.....	287
11.2.3	Payment Plans .....	287
11.3	GENERAL GUIDELINES .....	288
11.4	CREDIT ANALYSIS .....	288
11.5	CREDIT ELIGIBILITY .....	288
11.6	HECM FOR PROPERTY HELD IN TRUST .....	288
11.7	POWER OF ATTORNEY AND CONSERVATORSHIP.....	289
11.8	BORROWER COUNSELING .....	289
11.9	BORROWER ELIGIBILITY .....	289
11.10	MORTGAGE INSURANCE PREMIUM (MIP).....	290
11.11	PROPERTY ANALYSIS .....	290
11.11.1	Case Number.....	290
11.11.2	Order Appraisal.....	290
11.11.3	Property Eligibility.....	291
11.11.4	Repairs .....	291
11.11.5	Protective Covenants in Housing Communities for the Elderly .....	292
11.11.6	Receipt and Logging of Appraisals.....	292
11.11.7	Maximum Claim Amount .....	292
11.11.8	Calculation of Payments.....	293
11.11.9	Closing and Endorsements .....	293
11.11.10	Assignment to HUD .....	293
11.12	TITLE .....	294
CHAPTER 12.	FORMS AND CHECKLISTS (EXAMPLE TOPICS).....	295
12.1	[COMPANY NAME] WORKSHEETS.....	295
12.2	[COMPANY NAME] CONDOMINIUM FORMS.....	295
12.3	[COMPANY NAME] CONSTRUCTION-TO-PERMANENT FORMS.....	295
12.4	OTHER FORMS AND CHECKLISTS.....	295

QMs. The consumer can challenge both the ATR and QM standards, and the burden of proof will be on [Company Name] to defend that its ability to repay determination was made in good faith.

The consumer could claim that [Company Name] failed to make a reasonable, good faith determination of their ability to repay before the loan was made. If the consumer proves this claim in court, [Company Name] could be liable for, among other things, up to three years of finance charges and fees the consumer paid as well as the consumer's legal fees.

There is a three-year statute of limitations on ability to repay claims, after which, consumers can bring ability to repay claims only as setoff/recoupment claims in a defense to foreclosure.

#### 1.5.4 Appendix Q

*Note: The CFPB's amendment to the ATR/QM Rule in December 2020 removes Appendix Q requirements as of June 30, 2021.*

Appendix Q to Part 1026 of the amendment provides the standards for determining monthly debt and income for the calculation of DTI in order to determine whether a loan meets the standard for a Qualified Mortgage. The CFPB (The Bureau) codified HUD Handbook 4155.1 *Mortgage Credit Analysis for Mortgage Insurance*, but modified portions to eliminate FHA-specific underwriting process requirements.

[Company Name] shall comply with Appendix Q requirements when evaluating employment and non-employment related income as well as consumer liabilities.

- Religious or nonprofit organizations

#### **2.7.4 Non-Purchasing Spouse/Non-Borrower Spouse**

When a married borrower applies in his name alone, the spouse is referred to as the non-borrower spouse. A non-borrower spouse may have rights as a co-owner of the mortgaged premises due to state community property or marital rights.

#### **2.7.5 Power Of Attorney**

Power of attorney must be approved by [Company Name] Underwriting and Secondary and must be specific to the mortgage transaction. Power of attorney may be permitted, with prior approval by [Company Name], on the following:

- Purchase or rate and term refinance transactions
- Cash-out transactions
- Investment properties

Typically, the state where the borrower resides will be where the power of attorney should be executed, with the following exceptions:

- Purchase transaction for which the borrower is moving to another state and if the specific power of attorney is related to the purchase, then it should be executed in that state.
- Purchase of a second home/investment property in another state and if the specific power of attorney is related to the purchase, then it should be executed in the state in which the property is being purchased.

#### **Fannie Mae B8-5-06, Requirements for Use of a Power of Attorney**

Subject to restrictions, Fannie Mae allows an attorney-in-fact or agent under a power of attorney to sign the security instrument and/or note as long as the lender obtains a copy of the applicable power of attorney. Fannie Mae does not allow the use of POA for cash-out refinances.

#### **Freddie Mac Seller Guide 6301.4: Power of Attorney**

Freddie Mac will permit the use of a POA in situations of hardship or emergency, or when applicable law requires the use of a POA.

### 3.12.4 Ineligible Contributions

Generally, the cost of any contributions that are in the form of personal property or “giveaways” (such as furniture, decorator items, automobiles, club membership, etc.) are not eligible contributions, and are considered sales concessions.

### 3.12.5 Seller Concessions

**Fannie Mae B3-4.1-03, Types of Interested Party Contributions (IPCs)**

**Freddie Mac Seller Guide 4204.3: Interested Party Contributions**

Sales concessions are IPCs that are non-real estate items such as cash, moving expenses, furniture, and decorator allowances. Contributions that exceed the allowable limits for IPCs are also considered seller or sales concessions.

The seller concessions must be deducted from the sales price to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

### 3.12.6 Buydown as IPC

**Fannie Mae B3-4.1-03, Types of Interested Party Contributions (IPCs)**

**Freddie Mac Seller Guide CH. 4204.3: Interested Party Contributions**

If the borrower is offered a temporary or permanent interest rate buydown from an IPC, the cost to fund the buydown must be included in the IPC calculation. Only full interest rate buydowns (e.g., 2–1) are permitted.

The temporary buydown does not change the terms of the mortgage note. The permanent note rate is printed on the note and the borrower is obligated to pay that note rate if the buydown funds are not available.

A buydown agreement detailing the terms must be signed at closing.

The agreement must

- provide that the borrower will not be relieved of his obligation to make the mortgage payment required by the terms of the note if for any reason the buydown funds are not available;



When the lot has been owned by the borrower more than 12 months prior to the closing of the interim construction financing, the above guidelines apply, except that acquisition cost documentation is not required.

#### **5.6.4 Construction-to-Permanent Treated as a Cash-Out Refinance**

When the lot has been owned by the borrower fewer than 12 months prior to the closing of the interim construction financing, the following guidelines apply:

- The borrower's intent is to extract land equity from the subject property.
- The borrower may also receive cash back for his actual cash investment into the property, as properly documented.
- The LTV/TLTV/CLTV is within the cash-out guidelines for the product.
- The LTV/TLTV/CLTV is determined by dividing the unpaid principal balance of the construction-to-permanent mortgage by the lesser of
  - the current appraised value for the property (both the lot and the improvements); or
  - the total acquisition costs (which are the sum of the documented costs of the construction and the sales price of the lot)
- Acquisition cost must be documented.

When the lot has been owned by the borrower more than 12 months prior to the closing of the interim construction financing, the above guidelines apply, except that acquisition cost documentation is not required.

#### **5.6.5 Acquisition Cost Documentation**

To document acquisition cost, the borrower must provide a purchase contract or construction statement (cost breakdown), signed by the borrower and the builder.

If the lot is acquired separately, the borrower must also provide a copy of the recorded deed with the date of filing (if applicable) and one of the following:

- A copy of the lot purchase agreement or contract for deed
- An owner's title policy
- A Closing Disclosure or HUD-1 settlement statement

Any large differences between the current appraised value and the original purchase price of a lot that was acquired within the previous 12 months must be evaluated.

##### **5.6.5.1 Borrower Acted as Contractor**

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the subject property.
- Inspect the neighborhood.
- Inspect each of the comparable sales, at least from the street.
- Research, verify, and analyze data from reliable public and/or private sources.
- Report his analysis, opinions, and conclusions.

#### **6.6.16 FNMA 1004D/FHLMC 442: Appraisal Update and/or Completion Report**

This form is required for appraisal updates and/or completion reports for all 1–4 unit appraisal reports. At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.

#### **6.6.17 FNMA 1007/FHLMC 1000: Single Family Comparable Rent Schedule**

A Single Family Comparable Rent Schedule is required with a one-unit investment property where the borrower is using rental income to qualify. The form, which is prepared by the appraiser, is designed to present the information needed to determine the market rent for a single-unit investment property.

#### **6.6.18 FNMA 216/FHLMC 998: Operating Income Statement**

This form is used to determine the amount of operating income that can be used in evaluating the borrower's credit. The underwriter will use the second page of the form to calculate the monthly operating income and net cash flow for the property, and to explain any adjustments made to the borrower's figures.

This is required for all investment property transactions, regardless of whether or not rental income is being used to qualify.

#### **6.6.19 FNMA Form 2075/FHLMC Form 2070**

These forms are not appraisal reports.

- Fannie Mae Form 2075 Desktop Underwriter Appraisal Waiver
- Freddie Mac Form 2070 Loan Product Advisor Condition and Marketability Report

When Desktop Underwriter recommends Form 2075, or Loan Product Advisor recommends Form 2070, the AUS has determined that the sales price or estimated value submitted will provide adequate collateral for the mortgage loan. A property appraisal is not required for these transactions.

credit score, certain compensating factors may be allowed to justify exceeding the maximum qualifying ratios. For a loan with a decision credit score of 580 or better, the ratios may be 40/50.

A matrix of credit score, applicable ratios, and acceptable compensating factors is provided in FHA Single Family Policy Handbook 4000.1, Section II, A.5.d.viii Approvable Ratio Requirements. Any compensating factors must be supported by the documentation as specified in this section.

## **9.20 Appraisal Requirements**

**FHA 4000.1, II, A.3**  
**FHA 4000.1, II, B**

Each appraisal report submitted to [Company Name] requires the individual appraiser to fully comply with all Uniform Standards of Professional Appraisal Practice (USPAP), Financial Institutions Reform Recovery and Enforcement Act (FIRREA) appraisal regulatory standards, and the Federal Housing Finance Authority (FHFA) which issued the Appraiser Independence Requirements (AIR).

Appraisals must be completed by approved FHA roster appraisers and include the assigned FHA case number. Appraisers must confirm the subject property meets all HUD minimum property standards.

As the on-site representative for [Company Name], the appraiser must provide preliminary verification that a property meets the property acceptability criteria, which includes HUD's [Minimum Property Standards](#) (MPS).

Minimum Property Requirements refer to

- general requirements that all homes insured by FHA be safe, sound, and secure; and
- regulatory requirements relating to the safety, soundness and security of [New Construction].

Refer to FHA SFH Policy Handbook 4000.1, Section II, A.3 for FHA policy guidance on appraisals, including reporting standards, validity periods, effective dates, appraisal reuse and extensions, fees, notification to borrowers, and other important topics. See FHA SFH Policy Handbook 4000.1, Section II, B for Appraiser and Property Requirements.

[Company Name] requirements are as follows:

- All appraisers must provide a copy of their valid license and E&O insurance. This evidence must be included in every loan file.
- Appraisals are valid for 120 days. After expiration, a new appraisal must be obtained.
- If the property was built before 1978, FHA has additional lead-based paint requirements.

High-balance loan amounts are subject to the following: