

FHA Handbook 4000.1

Important Changes in Guidelines and Documentation

Note: This list was taken from the new FHA handbook, as well as various sources' analyses of changes. They are not considered comprehensive nor are they guaranteed to be accurate. They are also subject to change by FHA and interpretation by Lenders.

Assets

Gifts. Lender must be able to make a reasonable determination that the gifts funds were not from an unacceptable source.

Large Deposits. For accounts that have recently opened and for accounts that have had recent deposits, large deposits will be defined as more than 1% of the adjusted value. The adjusted value is the lesser of purchase price minus seller concessions or the appraised value of the home.

For example, if a \$200,000 home that has a \$5,000 seller concession is appraised for \$200,000 or more, then a large deposit would be calculated as more than \$1,950 ($\$200,000 - \$5,000 = \$195,000$. $\$195,000 \times 0.01 = \$1,950$).

Earnest money deposit. Lender must verify and document the earnest money deposit and source of funds if the amount of the EMD exceeds 1% of the sales price (used to be 2%).

Reserves. Requirement taken from AUS. Need three months for 3 to 4 unit properties.

Salary Advance. Cannot be used as funds for closing.

Non-Profits. Gift from HUD approved non-profit can't be used to replace minimum cash investment⁴.

Income

Part Time Income. Two years of uninterrupted part-time income will be required. Your average over that two-year period will be used in calculations. However, if you received a pay increase, you can instead calculate your average over the past 12 months.

Self-employed Declining Income. You cannot use your income if it has had more than a 20% decline, except in extenuating circumstances, and it has been either stable or increasing during the past 12 months. However, you need to qualify using your lower income.

Self-employment. Must be self-employed for two years.

Frequent Job Changes. If you have moved more than three times in the past 12 months for work, then the FHA mortgage loan requirements require you to show proof that the moves either advanced your income or benefits, or that you needed the training and can document that fact.

Overtime and Bonus Income. You can include a two-year history of overtime and bonus income in your loan application. You will be allowed to use a 1-2 year history if you have earned overtime and/or bonuses consistently during that time, and are likely to continue doing so.

Rent Obtained from Retained Primary Residence. When relocating for work, the FHA mortgage loan requirements specify that your new residence must be at least 100 miles from your current property. You also need at least 25% equity in the current property, unless the rental income history is on your last tax return.

Non-taxable Income. You can include non-taxable income such as social security and disability in your qualifying income, grossed up to a maximum of 15%. Or you can use the actual tax benefit.

Rental Income for 2-4 Units. When buying a property that has between 2-4 units, you can add the rental income from the other units to your qualifying income. Specifically, you can use 75% of either the appraiser's estimate of fair market rent or the rent based on the rental agreement. This change lowers the amount you can specify when qualifying for the purchase of a multi-family property.

Boarder Income. Must show on tax returns for two years with proof of intent to continue.

Expected Income. Must start within 30 days of closing date of Mortgage.

VA Disability Benefits. Need VA Benefit Form to use income.

Public Assistance Income. Must verify to continue for a minimum of three years in order to utilize.

Unstable Job History. If four jobs in last 12 months, must show history of schooling or consistent salary increases.

Commission Income. Must have at least one year history with the same employer, if less than two year's history.

Loans and Credit

Installment Debt with Less than 10 Months. According to FHA mortgage loan requirements, you can exclude such accounts from debt-to-income ratios if the total remaining payments due is less than 5% of your gross monthly income. The borrower may not pay the debt down to achieve the 5%.

Deferred obligations. All deferred obligations, regardless of when they start, must be included in borrower qualifying ratios. If the actual payment is unknown:

- Use 5% of the outstanding balance;
- If it is a student loan and monthly payment is zero or unknown, use 2% of outstanding balance.

Note: This was further amended in Mortgage Letter 2016-08 issued in April of 2016 and effective June 30, 2016.

30 Day Accounts that Require Payment in Full. You can exclude such accounts from your debt-to-income ratio if you can document your payments in full for the last 12 months. If you have had any late payments in that time, then 5% of that balance will be included in your debt ratios.

Authorized User Accounts. Accounts in which the borrower is an authorized user must be included in the DTI ratio, unless it can be documented that the primary accounted holder has made all payments within the past 12 months. If less than three payments have been required within the past 12 months, then the debt must be included.

Collection Accounts. Over \$2,000, account must be paid off. If payment plan, use 5.0% of the balance for payment or actual payment agreement.

Federal Debts. Delinquent Federal debts must be resolved in accordance with the Federal Debt Collection Improvement Act, but no guidance provided to lender on how to accomplish this. (Old rule made no reference to DCIA.)

Satisfactory Credit. New definition for satisfactory credit. Borrower must have:

- Acceptable payment history-means borrower made all housing and installment debt payments. on time for the previous 12 months and no more than two 30 day lates in last 24 months, and;
- No major derogatory credit-means no payments more than 90 days after due date and no more than 2 payments made more than 60 days after due date.

Property and Eligibility

Multiple FHA Loans. You can obtain a second FHA loan for your primary residence if you are relocating for work when your workplace is more than 100 miles from your current home. This change does not account for high traffic areas where commutes can take exceptionally long times.

Acceptable Mixed Use Properties. A minimum of 51% of a building's square footage must be intended for residential use. This is an increase in the allotment of mixed use from the previous rules. The commercial use cannot adversely affect the health and safety of the residential occupants.

Streamlined Refinancing – Net Tangible Benefits. Reduction in term will be deemed an acceptable net tangible benefit as long as the total of the principal, interest, and mortgage insurance is no more than \$50 a month higher than your current loan.

Streamline Net Tangible Benefit. Definition extended from lower rate to lower rate and MIP combined.

Family Members. No longer includes cousin.

Excessive Land. Over and above what is needed to support the property.

Utilities. If not on during appraisal, must be conditioned for re-observation.

Cash out Seasoning. Must be owned and occupied by borrower for 12 months. Can't use a non-owner occupant income to qualify.

Streamline Occupancy. Owner Occupancy must be verified in order to process as 0/0.

Streamline Eligibility. No one can be removed from the mortgage without credit qualifying.

Documentation.

Age of Documents. Documents used for origination/underwriting cannot be more than 120 days old at the disbursement date. (Old rule was 180 days for new construction and 120 days for existing construction).

Non-Borrowing Spouse. Must obtain authorization to verify SSN with Social Security Administration.

Joint Bank Statements. Must have proof applicant has access to the funds (even for spouses).

Self-Employed. Need business tax returns if money coming from the business or if income inconsistent. Need P&L if more than one quarter has expired.

Divorce Decree/Separation Agreement. Need entire document if refer or just pertinent pages if an approval from AUS.