



## FHA SF HANDBOOK EXCERPTS

### FHA Single Family Housing Policy Handbook (HUD Handbook 4000.1)

*"A Live Webinar: The Single Family Housing Policy Handbook In-Depth"*

*August 20, 2015 and August 25, 2015*

CREDIT (MANUAL UNDERWRITING)			
CHAPTER 4. BORROWER ELIGIBILITY AND CREDIT ANALYSIS Section C. Borrower Credit Analysis	EXCERPTS FROM PRIOR HANDBOOK 4155.1 MORTGAGE CREDIT ANALYSIS FOR MORTGAGE INSURANCE ON ONE- TO FOUR-UNIT MORTGAGE LOANS (4155.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secC.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secC.pdf</a>	II. ORIGATION THROUGH POST- CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages	EXCERPTS FROM NEW FHA SINGLE FAMILY HOUSING POLICY HANDBOOK (HUD HANDBOOK 4000.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf</a>
2. Guidelines for Credit Report Review  4155.1 4.C.2.a Hierarchy of Credit Review  (PAGE 167, 4-C-7)  4155.1 4.C.2.b	Evaluating credit involves reviewing payment histories in the following order: <ul style="list-style-type: none"> <li>• first: previous housing expenses, including utilities,</li> <li>• second: installment debts,</li> <li>• third: revolving accounts.</li> </ul> <p>Generally, a borrower is considered to have an acceptable credit history if he/she does not have late housing or installment debt payments, unless there is major derogatory credit on his/her revolving accounts.</p> <p>The borrower's housing obligation payment history</p>	5. Manual Underwriting of the Borrower a. Credit Requirements (Manual)  PAGE 204	iii. Evaluating Credit History (Manual)  (A) General Credit (Manual) The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness. The Mortgagee must not consider the credit history of a non-borrowing spouse.  (B) Types of Payment Histories (Manual) The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3)



<p><b>Reviewing Previous Rental or Mortgage Payment</b></p> <p><b>(PAGE 168, 4-C-8)</b></p>	<p>holds significant importance when evaluating credit. The lender must determine the borrower's housing obligation payment history through the</p> <ul style="list-style-type: none"> <li>• credit report</li> <li>• verification of rent received directly from the landlord (for landlords with no identity-of-interest with the borrower)</li> <li>• verification of mortgage received directly from the mortgage servicer, or</li> <li>• review of canceled checks that cover the most recent 12-month period.</li> </ul> <p><b>Note:</b> The lender must verify and document the previous 12 months' housing history even if the borrower states he/she was living rent-free.</p> <p><b>TOTAL Scorecard Accept/Approve Recommendation</b> If the loan receives an Accept/Approve recommendation from the Technology Open To Approved Lenders (TOTAL) Scorecard, the housing/rental history requirement stated above is waived.</p> <p><b>Reference:</b> For more information on the <a href="#">TOTAL Scorecard recommendations</a>, see the <a href="#">TOTAL Mortgage Scorecard User Guide</a>.</p>		<p>revolving accounts.</p> <p><b>(1) Satisfactory Credit</b></p> <p>The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.</p> <p>The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.</p> <p>Major derogatory credit on revolving accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.</p> <p><b>(2) Payment History Requiring Additional Analysis</b></p> <p>If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.</p> <p>The Mortgagee must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or</p>
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		<p>extenuating circumstances. The Mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.</p> <p>The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.</p> <p><b>(C) Payment History on Housing Obligations (Manual)</b></p> <p>The Mortgagee must determine the Borrower's Housing Obligation payment history through:</p> <ul style="list-style-type: none"><li>• the credit report;</li><li>• verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);</li><li>• verification of Mortgage received directly from the mortgage servicer; or</li><li>• a review of canceled checks that cover the most recent 12-month period.</li></ul> <p>The Mortgagee must verify and document the previous 12 months' housing history. For Borrowers who indicate they are living rent-free, the Mortgagee must obtain verification from the property owner where they are residing that the</p>
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			<p>Borrower has been living rent-free and the amount of time the Borrower has been living rent free.</p> <p>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.</p>
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LIABILITIES/PROJECTED OBLIGATIONS			
<b>CHAPTER 4. BORROWER ELIGIBILITY AND CREDIT ANALYSIS</b> <b>Section C. Borrower Credit Analysis</b>	<b>EXCERPTS FROM PRIOR HANDBOOK 4155.1 MORTGAGE CREDIT ANALYSIS FOR MORTGAGE INSURANCE ON ONE- TO FOUR-UNIT MORTGAGE LOANS (4155.1)</b> <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secC.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secC.pdf</a>	<b>II. ORIGATION THROUGH POST-CLOSING/ENDORSEMENT</b> <b>A. Title II Insured Housing Programs Forward Mortgages</b>	<b>EXCERPTS FROM NEW FHA SINGLE FAMILY HOUSING POLICY HANDBOOK (HUD HANDBOOK 4000.1)</b> <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf</a>
<b>6. Borrower Liabilities: Projected Obligations and Obligations Not Considered Debt</b>  <b>Introduction</b>  <b>4.C.6.a Projected Obligations</b>  <b>(PAGE 183, 4-C-23)</b>	<p>This topic contains information on borrower</p> <ul style="list-style-type: none"> <li>projected obligations, and</li> <li>obligations not considered debt.</li> </ul> <p>Debt payments such as a student loan or balloon note scheduled to begin or come due within 12 months of the mortgage loan closing must be included by the lender as anticipated monthly obligations during the underwriting analysis.</p> <p>Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.</p>	<b>4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)</b> <b>b. Credit Requirements (TOTAL)</b> <b>iv. Evaluating Liabilities and Debts (TOTAL)</b>  <b>PAGE 142</b>	<b>(G) Deferred Obligations (TOTAL)</b> <b>(1) Definition</b>  <p>Deferred Obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.</p> <b>(2) Standard</b>  <p>The Mortgagee must include deferred obligations in the Borrower's liabilities.</p> <b>(3) Required Documentation</b>  <p>The Mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Mortgagee must obtain evidence of the anticipated monthly payment obligation, if available.</p>



			<p><b>(4) Calculation of Monthly Obligation</b></p> <p>The Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.</p> <p>If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.</p> <p>For a student loan, if the actual monthly payment is zero or is not available, the Mortgagee must utilize 2 percent of the outstanding balance to establish the monthly payment.</p> <p><b>PREVIOUSLY REFERENCED</b></p>
		<p><b>5. Manual Underwriting of the Borrower</b></p>	
<p><b>4. Borrower Liabilities: Recurring Obligations</b></p> <p><b>Introduction</b></p>	<p>This topic contains information on the borrower's recurring obligations, including</p> <ul style="list-style-type: none"> <li>• types of recurring obligations</li> <li>• recurring obligations in debt-to-income ratio calculation</li> <li>• revolving account minimum monthly payment, and</li> <li>• alimony payments in qualifying ratio calculations.</li> </ul>	<p><b>4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)</b></p> <p><b>b. Credit Requirements (TOTAL)</b></p> <p><b>iv. Evaluating Liabilities and Debts (TOTAL)</b></p> <p><b>PAGE 144</b></p>	<p><b>(H) Installment Loans (TOTAL)</b></p> <p><b>(1) Definition</b></p> <p>Installment Loans refer to loans, not secured by real estate, that require the periodic payment of P&amp;I. A loan secured by an interest in a timeshare must be considered an Installment Loan.</p> <p><b>(2) Standard</b></p> <p>The Mortgagee must include the monthly payment shown on the credit report, loan agreement or</p>



<b>4.C.4.a Types of Recurring Obligations</b>  <b>(PAGE 178, 4-C-18)</b>	<p>Recurring obligations include</p> <ul style="list-style-type: none"> <li>• all installment loans</li> <li>• revolving charge accounts</li> <li>• real estate loans</li> <li>• alimony</li> <li>• child support, and</li> <li>• other continuing obligations.</li> </ul>		<p>payment statement to calculate the Borrower's debts.</p> <p>If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.</p>
<b>4.C.4.b Recurring Obligations in Debt to Income Ratio Calculation</b>  <b>(PAGE 179, 4-C-19)</b>	<p>When computing the debt-to-income (DTI) ratio, the lender must include the following recurring obligations:</p> <ul style="list-style-type: none"> <li>• monthly housing expense, and</li> <li>• additional recurring charges extending ten months or more, such as</li> <li>• payments on installment accounts</li> <li>• child support or separate maintenance payments</li> <li>• revolving accounts, and</li> <li>• alimony.</li> </ul> <p>Debts lasting <i>less</i> than ten months <i>must</i> be included if the amount of the debt will affect the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.</p> <p><b>Note:</b> Monthly payments on revolving or open-ended accounts, regardless of their balances, are counted as liabilities for qualifying purposes even if the accounts appear likely to be paid off within ten months or less.</p>		<p><b>(3) Required Documentation</b></p> <p>If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.</p> <p>If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.</p>



EMPLOYMENT			
CHAPTER 1. UNDERWRITING REVIEW Section B. Documentation Requirements	EXCERPTS FROM PRIOR HANDBOOK 4155.1 MORTGAGE CREDIT ANALYSIS FOR MORTGAGE INSURANCE ON ONE- TO FOUR-UNIT MORTGAGE LOANS (4155.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_1_secB.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_1_secB.pdf</a>	II. ORIGATION THROUGH POST- CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages	EXCERPTS FROM NEW FHA SINGLE FAMILY HOUSING POLICY HANDBOOK (HUD HANDBOOK 4000.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf</a>
2. Required Documents for Mortgage Credit Analysis, Continued  4155.1 1.B.2.f TOTAL Scorecard Accept/Approve and Refer Feedback Certificate for Employment Verification  (PAGE 38, 1-B-17)	<b>Total Recommendation Borrower Not Employed with Same Employer AND Has Employment Gap:</b> If the borrower was <i>not</i> employed with the same employer for the previous two years, and has an employment gap of 30 days or greater, he/she must provide a written explanation for the employment gap.  <b>References:</b> For information on the TOTAL Scorecard, see <ul style="list-style-type: none"> <li>• HUD 4155.1 6.A.1, and</li> <li>• the <i>TOTAL Mortgage Scorecard User Guide</i>.</li> </ul>	4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) c. Income Requirements (TOTAL) xi. Additional Required Analysis of Stability of Employment Income (TOTAL)  PAGE 156  5. Manual Underwriting of the Borrower	<b>(B) Addressing Gaps in Employment</b> For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that: <ul style="list-style-type: none"> <li>• the Borrower has been employed in the current job for at least six months at the time of case number assignment; and</li> <li>• a two year work history prior to the absence from employment using standard or alternative employment verification.</li> </ul> PREVIOUSLY REFERENCED





RENTAL INCOME CALCULATION/DOCUMENTATION			
CHAPTER 4. BORROWER ELIGIBILITY AND CREDIT ANALYSIS Section E. Non- Employment Related Borrower Income Overview	EXCERPTS FROM PRIOR HANDBOOK 4155.1 MORTGAGE CREDIT ANALYSIS FOR MORTGAGE INSURANCE ON ONE- TO FOUR-UNIT MORTGAGE LOANS (4155.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secE.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secE.pdf</a>	II. ORIGATION THROUGH POST- CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages	EXCERPTS FROM NEW FHA SINGLE FAMILY HOUSING POLICY HANDBOOK (HUD HANDBOOK 4000.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf</a>
4. Rental Income Introduction  (PAGES 216-220 4-E-10-14)	This topic contains information on analyzing rental income, including <ul style="list-style-type: none"> <li>analyzing the stability of rental income</li> <li>rental income from borrower-occupied property</li> <li>income from roommates</li> <li>documentation required to verify rental income</li> <li>analyzing IRS Form 1040 Schedule E using current leases to analyze rental income</li> <li>the exclusion of rental income from a property being vacated by the borrower, and</li> <li>exceptions to the exclusion of rental income from a principal residence being vacated by a borrower.</li> </ul>	4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) c. Income Requirements (TOTAL) xii. Other Sources of Effective Income (TOTAL)  PAGE 164	(I) Rental Income (TOTAL) (1) Definition  Rental Income refers to income received or to be received from the subject Property or other real estate holdings. (2) Rental Income Received from the Subject Property (TOTAL) (a) Standard  The Mortgagee 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, or an acceptable one- to four-unit Investment Property.  (b) Required Documentation  Documentation varies depending upon the length of
4.E.4.a Analyzing the Stability of Rental	Rent received for properties owned by the borrower is acceptable income for qualifying as long as the lender can document the		

#### 4.E.4.b Rental Income From Borrower Occupied Property



<p><b>4.E.4.d Documentation Required to Verify Rental Income</b></p>	<p><b>Reference:</b> For information about the <b>HOCs'</b> vacancy and maintenance factors, see the <i>HOC Reference Guide</i> at <a href="http://www.hud.gov/offices/hsg/sfh/ref/hsgcrcont.cf">www.hud.gov/offices/hsg/sfh/ref/hsgcrcont.cf</a>.</p> <p>Analysis of the following required documentation is necessary to verify all borrower rental income:</p> <ul style="list-style-type: none"> <li>• <b>IRS Form 1040</b> Schedule E, as described in <b>HUD 4155.1 4.D.5.b</b>, and</li> <li>• current leases/rental agreements, as described in <b>HUD 4155.1 4.E.4.f</b>.</li> </ul>		<p>Mortgagee must verify and document the existing Rental Income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two years.</p> <p>For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.</p> <p><b>(c) Calculation of Effective Income</b></p> <p>The Mortgagee must add the net subject property Rental Income to the Borrower's gross income. The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.</p> <p><b>(i) Limited or No History of Rental Income</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• the monthly operating income reported on Freddie Mac Form 998; or</li> <li>• 75 percent of the lesser of: <ul style="list-style-type: none"> <li>○ fair market rent reported by the Appraiser; or</li> <li>○ the rent reflected in the lease or other rental agreement.</li> </ul> </li> </ul>
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			<p>○</p> <p><b>(ii) History of Rental Income</b></p> <p>The Mortgagee 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.</p> <p>If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.</p> <p><b>(3) Rental Income from Other Real Estate Holdings (TOTAL)</b></p> <p><b>(a) Standard</b></p> <p>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. The Mortgagee must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.</p>
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			<p><b>(b) Required Documentation</b>  <b>(i) Limited or No History of Rental Income</b></p> <p>Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.</p> <p><b>Two- to Four-Units</b>          The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i>) and, if available, the prospective leases.</p> <p><b>One Unit</b>          The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i>, Fannie Mae Form 1007/Freddie Mac Form 1000, <i>Single Family Comparable Rent Schedule</i>, and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i>, showing fair market rent and, if available, the prospective lease.</p>
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			<p><b>(ii) History of Rental Income</b></p> <p>The Mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.</p> <p><b>(c) Calculation of Effective Net Rental Income</b></p> <p><b>(i) Limited or No History of Rental Income</b></p> <p>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, the Mortgagee must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:</p> <ul style="list-style-type: none"> <li>• the monthly operating income reported on Freddie Mac Form 998; or</li> <li>• 75 percent of the lesser of:             <ul style="list-style-type: none"> <li>○ fair market rent reported by the Appraiser; or</li> <li>○ the rent reflected in the lease or other rental agreement.</li> </ul> </li> </ul> <p><b>(ii) History of Net Rental Income</b></p> <p>The Mortgagee 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, the Mortgagee must annualize the Rental</p>
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<p><b>4.E.4.c</b> <b>Income from Roommates in a Single Family Property</b></p>	<p>Income from roommates in a single family property occupied as the borrower's primary residence is <i>not</i> acceptable for qualifying. Rental income from boarders, however, <i>is</i> acceptable, if the boarders are related by blood, marriage or law.</p> <p>The rental income may be considered effective if shown on the borrower's tax return. If not on the tax return, rental income paid by the boarder</p> <ul style="list-style-type: none"> <li>• may be considered as a compensating factor, and</li> <li>• must be adequately documented by the lender.</li> </ul>	<p>Income for the length of time the Property has been owned.</p> <p>For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition 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.</p> <p><b>(4) Boarders of the Subject Property (TOTAL)</b> <b>(a) Definition</b></p> <p>Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.</p> <p><b>(b) Standard</b></p> <p>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.</p> <p><b>(c) Required Documentation</b></p> <p>The Mortgagee must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease. For purchase transactions, the Mortgagee must obtain a copy of the executed written agreement</p>
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			<p>documenting their intent to continue boarding with the Borrower.</p> <p><b>(d) Calculation of Effective Income</b>                      The Mortgagee must calculate the Effective Income by using the lesser of the two year average or the current lease.</p>
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COMBINED LOAN-TO-VALUE (CLTV) –STREAMLINE REFINANCE			
CHAPTER 3. MAXIMUM MORTGAGE AMOUNTS ON REFINANCE TRANSACTIONS Section C. Maximum Mortgage Amounts on Streamline Refinances	EXCERPTS FROM PRIOR HANDBOOK 4155.1 MORTGAGE CREDIT ANALYSIS FOR MORTGAGE INSURANCE ON ONE- TO FOUR-UNIT MORTGAGE LOANS (4155.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_3_secC.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_3_secC.pdf</a>	II. ORIGATION THROUGH POST- CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages	EXCERPTS FROM NEW FHA SINGLE FAMILY HOUSING POLICY HANDBOOK (HUD HANDBOOK 4000.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf</a>
4155.1 3.C.2.f Policy on Subordinate Financing on Streamline Refinances Without an Appraisal  (PAGE 119, 3-C-3)	<p>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.</p> <p>If subordinate financing remains in place, the</p> <ul style="list-style-type: none"> <li>• maximum combined loan-to-value (CLTV) is 125%</li> <li>• CLTV is based on the original appraised value of the property, and</li> <li>• 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.</li> </ul> <p>This calculation may not exceed 125%.</p> <p><b>Note:</b> The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the CLTV ratio.</p>	<p>8. Programs and Products</p> <p>d. Refinances</p> <p>vi. No Cash-Out Refinances</p> <p>(C) Streamline Refinances</p> <p>(4) General Information</p> <p>Applicable to All Streamline Refinances</p> <p>PAGE 371</p>	<p>(k) Maximum CLTV Ratio and Subordinate Financing</p> <p>Existing Subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance. New Subordinate financing is permitted only where the proceeds of the subordinate financing are used to:</p> <ul style="list-style-type: none"> <li>• reduce the principal amount of the existing FHA-insured Mortgage, or</li> <li>• finance the origination fees, other closing costs, or discount points associated with the refinance</li> </ul> <p>There is no maximum CLTV.</p> <p>Mortgagees must contact the National Servicing Center for processing of any HUD held lien subordination.</p>



STREAMLINE REFINANCE EXEMPTIONS			
CHAPTER 6. SPECIAL UNDERWRITING Section C. Streamline Refinances	EXCERPTS FROM PRIOR HANDBOOK 4155.1 MORTGAGE CREDIT ANALYSIS FOR MORTGAGE INSURANCE ON ONE- TO FOUR-UNIT MORTGAGE LOANS (4155.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_6_secC.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_6_secC.pdf</a>	II. ORIGATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages	EXCERPTS FROM NEW FHA SINGLE FAMILY HOUSING POLICY HANDBOOK (HUD HANDBOOK 4000.1) <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf</a>
4155.1 6.C.1.c Appraisals on Streamline Refinances  (PAGE 344, 6-C-3)	FHA <b>does not require an appraisal</b> on a streamline refinance. These transactions can be made with or without an appraisal.  <b>FHA does not require repairs to be completed</b> on streamline refinances with appraisals, with the exception of lead-based paint repairs. However, the lender may require completion of repairs as a condition of the loan.  <b>References:</b> For information on streamline refinances <ul style="list-style-type: none"> <li>with an appraisal (non-credit qualifying), see <a href="#">HUD 4155.1 3.C.3</a> , and</li> <li>without an appraisal, see <a href="#">HUD 4155.1 3.C.2</a> .</li> </ul>	8. Programs and Products d. Refinances vi. No Cash-Out Refinances (C) Streamline Refinances  <b>PAGE 365</b>	(1) Streamline Refinance Exemptions (a) Non-Credit Qualifying Exemptions Unless otherwise stated in this section, the following sections of Origination through Post-Closing/ Endorsement do not apply to non-credit qualifying Streamline Refinances: <ul style="list-style-type: none"> <li>Ordering Appraisal</li> <li>Transferring Existing Appraisal</li> <li>Ordering Second Appraisal</li> <li>Ordering an Update to an Appraisal</li> <li>Borrower Minimum Decision Credit Score</li> <li>Borrower and Co-Borrower Ownership and Obligation Requirements</li> <li>Cosigner Requirements</li> <li>Principal Residence in the United States</li> <li>Military Personnel Eligibility</li> <li>Citizenship and Immigration Status</li> <li>Residency Requirements</li> <li>Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt</li> </ul>
6.C.1.d Ignoring or Setting Aside an Appraisal on a Streamline Refinance (PAGE 344, 6-C-3)	If an appraisal has been performed on a property, and the appraised value is such that the borrower would be better advised to proceed as if no appraisal had been made, then the lender <ul style="list-style-type: none"> <li><b>appraisal may be ignored and not used</b>, and</li> <li>lender must notate this decision on the</li> </ul>		



<p><b>6.C.1.e</b>  <b>Reviewing CAIVRS, LDP and GSA Exclusion Lists on Streamline Refinances</b>  <b>(PAGE 344, 6-C-3)</b></p> <p><b>4155.1 6.C.1.f</b>  <b>Credit Report and Credit Score Requirements for Streamline Refinances</b>  <b>(page 345, 6-C-4)</b></p>	<p><a href="#">HUD-92900-LT</a>, <i>FHA Loan Underwriting and Transmittal Summary</i>.</p> <p>The Credit Alert Interactive Voice Response System (CAIVRS) does not need to be checked for streamline refinances, but the lender must review, for all borrowers, the</p> <ul style="list-style-type: none"> <li>• <a href="#">HUD Limited Denial of Participation (LDP)</a> List, and</li> <li>• General Services Administration (GSA) <a href="#">List of Parties Excluded from Federal Procurement or Non-procurement Programs</a>.</li> </ul> <p><b>References:</b> For more information on HUD's LDP List, GSA exclusion lists, and using CAIVRS to check borrower eligibility for Federally-related credit, see</p> <ul style="list-style-type: none"> <li>• HUD 4155.1 4.A.6, and</li> <li>• HUD 4155.1 4.A.7</li> </ul> <p>Except for credit qualifying streamline refinances, FHA does <i>not</i> require a credit report. The lender, however, may require this as part of its credit policy.</p> <p>If a credit score is available, the lender must enter it into FHA Connection (FHAC). If more than one credit score is available, the lender must enter <i>all</i> available credit scores into FHAC.</p>		<ul style="list-style-type: none"> <li>• Delinquent Federal Tax Debt</li> <li>• Property Eligibility and Acceptability Criteria</li> <li>• National Housing Act's Statutory Limits</li> <li>• Nationwide Mortgage Limits</li> <li>• LTV Limitations Based on Borrower's Credit Score</li> <li>• Underwriting the Property</li> <li>• Underwriting the Borrower Using the TOTAL Mortgage Scorecard</li> <li>• Credit Requirements (Manual)</li> <li>• Income Requirements (Manual)</li> <li>• Asset Requirements (Manual)</li> <li>• Underwriting of Credit and Debt (Manual)</li> <li>• Underwriting of Income (Manual)</li> <li>• Underwriting of Assets (Manual)</li> <li>• Calculating Qualifying Ratios (Manual)</li> <li>• Approvable Ratio Requirements (Manual)</li> <li>• Documenting Acceptable Compensating Factors (Manual)</li> </ul> <p><b>(b) Credit Qualifying Exemptions</b>  The following sections of Origination through Post-Closing/ Endorsement do not apply to credit qualifying Streamline Refinances:</p> <ul style="list-style-type: none"> <li>• Ordering Appraisal</li> <li>• Transferring Existing Appraisal</li> </ul>
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<p><b>6.C.1.g</b>  <b>Use of TOTAL Scorecard on Streamline Refinances</b>  <b>(page 345, 6-C-4)</b></p>	<p>Effective with case numbers assigned on or after April 18, 2011, <b>FHA no longer requires lenders to certify employment and income</b> on streamline refinance transactions. As a result, lenders will not have sufficient data to score streamline refinances through the Technology Open to Approved Lenders (TOTAL) Scorecard. The TOTAL Scorecard was never intended to be used for streamlines and the results are not considered valid.</p> <p>A lender who inadvertently uses TOTAL must not enter “ZFHA” as the underwriter in FHA Connection (FHAC) but must instead use its Direct Endorsement (DE) underwriter designation, and the DE underwriter must sign and use his/her Computerized Home Underwriting Management System (CHUMS) identification number on</p> <ul style="list-style-type: none"> <li>• page 3 of the HUD 92900-A, <i>HUD/VA Addendum to Uniform Residential Loan Application</i>, and</li> <li>• page 1 of the HUD-92900-LT, <i>FHA Loan Underwriting and Transmittal Summary</i>.</li> </ul>		<ul style="list-style-type: none"> <li>• Ordering Second Appraisal</li> <li>• Ordering an Update to an Appraisal</li> <li>• Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt</li> <li>• Delinquent Federal Tax Debt</li> <li>• Property Eligibility and Acceptability Criteria</li> <li>• National Housing Act’s Statutory Limits</li> <li>• Nationwide Mortgage Limits</li> <li>• LTV Limitations Based on Borrower’s Credit Score</li> <li>• Underwriting the Property</li> <li>• Underwriting the Borrower Using the TOTAL Mortgage Scorecard</li> </ul>
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**STREAMLINE REFINANCE NET TANGIBLE BENEFIT**

**4155.1 6.C.5.a**  
**Definition of**  
**Net Tangible**  
**Benefit of**  
**Streamline**  
**Refinance**  
  
**(PAGE 357, 6-C-16)**

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

Net tangible benefit is defined as

- a 5% reduction to the principal and interest (P&I) of the mortgage payment
- plus the annual mortgage insurance premium (MIP), **or**
- refinancing from an Adjustable Rate Mortgage (ARM) to a fixed rate mortgage.

Notes:

- A reduction in the term of the mortgage is *not* a net tangible benefit.
- When refinancing to a hybrid ARM, lenders must treat the new hybrid ARM as a fixed rate mortgage.

**References:** For more information on the net tangible benefit of

- reduction in mortgage payment, see HUD 4155.1 6.C.5.b
- ARM to fixed rate refinances, see HUD 4155.1 6.C.5.c, and
- fixed rate to ARM refinances, see HUD 4155.1 6.C.5.d.

**8. Programs and Products**  
**d. Refinances**  
**vi. No Cash-Out**  
**Refinances**  
**(C) Streamline Refinances**  
**(4) General Information**  
**Applicable to All**  
**Streamline Refinances**

**PAGE 368**

**(c) Net Tangible Benefit of Streamline Refinances**  
**(i) Definitions**

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 (MIP) rate.

**(ii) Standard**

The Mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions.

To			
From	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.



4155.1 6.C.5.b Net Tangible Benefit of Reduction in Mortgage Payment from Streamline Refinance	To qualify as a net tangible benefit, the new mortgage payment (P&I plus MIP) must be <i>at least</i> 5% lower than the mortgage payment of the loan being refinanced.  <b>Note:</b> This requirement applies when refinancing from <ul style="list-style-type: none"> <li>fixed rate to fixed rate</li> <li>ARM to ARM</li> <li>Graduated Payment Mortgage (GPM) to ARM</li> <li>GPM to fixed rate</li> <li>203(k) to 203(b), and</li> <li>235 to 203(b).</li> </ul> <b>References:</b> For additional information on <ul style="list-style-type: none"> <li>ARM to ARM refinancing, see HUD 4155.1 6.C.4.d</li> <li>fixed rate to ARM refinancing, see HUD 4155.1 6.C.5.d</li> <li>GPM to ARM refinancing, see HUD 4155.1 6.C.4.h</li> <li>GPM to fixed rate refinancing, see HUD 4155.1 6.C.4.g</li> <li>203(k) to 203(b) refinancing, see HUD 4155.1 6.C.4.i, and</li> <li>235 to 203(b) refinancing, see HUD 4155.1 6.C.4.j.</li> </ul>		To			
			From	Fixed Rate New Combined Rate	One-Year ARM New Combined Rate	Hybrid ARM New Combined Rate
			Any ARM With Less Than 15 Months to Next Payme nt Chang e 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.
4155.1 6.C.5.c	The table below provides the net tangible benefit		Any ARM With Greate r Than or Equal to 15 Months to Next Payme	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.



Net Tangible Benefit of ARM Refinance	requirements for various types of ARM refinances.		nt Chang e Date			
	Type of ARM Refinance	Requirement to Establish Net Tangible Benefit				
	One-Year ARM to Fixed Rate Refinance	New interest rate must be <i>no greater than</i> two percentage points above the current interest rate of the existing ARM.				
	One-Year ARM to One-Year ARM Refinance	Reduction of at least 5% of P&I and MIP.				
	One-Year ARM to Hybrid ARM Refinance	New interest rate must be <i>at least</i> two percentage points below the current interest rate of the ARM.				
	Hybrid ARM (during Fixed Period) to Fixed Rate Refinance	Reduction of at least 5% of P&I and MIP.				
	Hybrid ARM (during Fixed Period) to One-Year ARM	New interest rate must be <i>at least</i> two percentage points below the current interest rate of the ARM.				
	Hybrid ARM (during Fixed Period) to Hybrid ARM	Reduction of <i>at least</i> 5% of P&I and MIP.				
	Hybrid ARM	New interest rate must be <i>no</i>				
<b>Reduction in Term</b> The net tangible benefit test is met if: <ul style="list-style-type: none"><li>the mortgage term is reduced;</li><li>the new interest rate does not exceed the current interest rate; <b>and</b></li><li>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.</li></ul>						



4155.1 6.C.5.d Net Tangible Benefit of Fixed Rate Refinance	(during Adjustable Period) to Fixed Rate	<i>greater than</i> two percentage points above the current interest rate of the existing ARM.		
	Hybrid ARM (during Adjustable Period) to One-Year ARM	Reduction of <i>at least</i> 5% of P&I and MIP.		
	Hybrid ARM (during Adjustable Period) to Hybrid ARM	New interest rate must be <i>at least</i> two percentage points below the current interest rate of the ARM .		
	The table below provides the net tangible benefit requirements for various types of ARM refinances.			
	Type of ARM Refinance	Requirement to Establish Net Tangible Benefit		
	Fixed Rate to Fixed Rate	Reduction of at least 5% of P&I and MIP.		
	Fixed Rate to One-Year ARM	New interest rate must be <i>at least</i> two percentage points below the current interest rate of the fixed rate mortgage.		
	Fixed Rate to Hybrid ARM	Reduction of at least 5% of P&I and MIP.		