The Complete FHA & VA

Originations Guide

**

Dave Hershman

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*Introduction*

In today’s world, knowledge can spell the difference between success and failure. With professional competition crowding the mortgage market via the Internet, from mega-conglomerates and through real estate and builder owned companies—today’s mortgage originator cannot afford to waste time or the opportunity to ignore a large segment of the market place.

The *Complete FHA & VA Originations Guide* is more than a compilation of rules and forms. It is a complete compilation of guidelines, forms, formulas AND marketing strategies and materials. What good is the knowledge of government programs if you do not know where to go to find the loans? What good is the knowledge of where to go if you do not have letters to help produce response? The complete originations guide will help you understand ***AND*** act. This is the goal of this publication.

The printed guide is accompanied by government documents on a diskette—recent Mortgagee Letters, The New FHA 4000.1 Handbook, VA Lenders Handbook and more. Keep in mind that these guides and the forms they contain change constantly. A true student of the industry keeps up with changes consistently so that they can stay ahead of the curve. People like to do business with experts—not with sales people.

Adding FHA and VA expertise to your product line opens up a whole new world for your success. From low-to-moderate income borrowers to streamline refinances, these are truly powerful tools. Learn and use this knowledge not only to become more successful. Use these tools to help bring the dream of homeownership to immigrants and those citizens who will really appreciate the blessing we have in America.

Good luck!



Dave Hershman

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**Section One – Federal Housing Administration**

*Introduction to FHA*

 Since the 1930’s FHA has been a substantial part of the mortgage industry within the United States. Despite several recent attempts by the agencies to “duplicate” FHA financing, FHA remains as important today as it ever was with regard to financing low-to-moderate income buyers. Why is FHA so important?

* FHA provides important sources of both purchase and refinance business. The company and originator delivering FHA financing builds diversity into a business plan.
* FHA loan amounts have increased substantially across the country. This means that FHA can now finance more homes than ever.
* A lack of affordable housing in many parts of the country means that the “FHA” price range is always in demand—even during recessions.
* The current population boom is being fueled by immigration. New citizens typically start at the bottom of the economic ladder and really appreciate the ability to own a home. FHA is ideally suited to serve the immigrant population.
* FHA can provide an affordable alternative to those with limited cash, limited credit history and limited income—without the high rates or larger down payments required by many conventional programs.
* The higher servicing values associated with FHA loans translate into a more profitable origination—with low rates to the consumer. This is a win-win situation.
* More recently, in early 2015, FHA lowered the cost of mortgage insurance, making FHA loans even more affordable for the consumers, especially those with lower credit scores.

***What is an FHA Loan?***

* The Federal Housing Administration (FHA) is part of the U.S. Department of Housing and Urban Development (HUD). HUD administers the issuance of government insured mortgages. This is as opposed to Fannie Mae and Freddie Mac which are both government sponsored enterprises (GSEs) which are currently in government conservatorships.
* The actual money lent to homebuyers does not come from the government. The money is actually provided by people who purchase *Ginnie Mae’s* (Government National Mortgage Association) securities as well as banks and other investors who purchase mortgages for their portfolios. *Ginnie Mae’s* are a very popular investment vehicle.
* *Ginnie Mae’s* are considered safe investments by the general public because they are backed by the full faith and credit of the United States Government.
* FHA actually insures loans made by lenders through the FHA mortgage program. Therefore, FHA loans are insured mortgages. FHA sets the standards upon which FHA loans are to be “insurable” (credit, eligibility standards, etc.). The mortgage insurance premium paid on FHA mortgages is called “MIP.”
* The safety, availability and liquidity of Ginnie Mae’s cause the interest rates to be competitive.
* FHA offers many programs. It is up to the individual lenders to decide which programs they want to offer to their clients.
* The rates are not set by FHA. Rates are typically less than the cost of conforming financing—especially for those who have lower credit scores. On conforming mortgages, Fannie Mae and Freddie Mac both have higher pricing for lower credit scores as does private mortgage insurance companies. FHA does not require higher pricing for lower credit scores and this statement applies both to the loan and the insurance on the loan. Though some lenders that accept lower credit scores on FHA loans may be priced higher than those who do not except lower credit scores.

Lenders approve FHA loans directly through the “direct endorsement” (DE) program. FHA also has approved automated underwriting systems from the agencies (LP and DU) using their TOTAL automated system.

* Lenders deal with FHA through the FHA Connection automated system. Through this system they can get case number assignments (for new appraisals under the CHUMS system -- Computerized Home Underwriting Management System), borrower credit watch (under the CAIVRS system -- Credit Alert Interactive Voice Response System), and access to MIP refund information for refinances. FHA-approved condominiums and appraiser lists are also available from this system.

***FHA Advantages***

* Low cash required—3.5% down payment.
* Low closing costs because all mortgage insurance can be financed.
* No cash reserves—No cash reserves required (15-day prepaid interest must be calculated). Cash reserves required for manually underwritten mortgages.
* Larger seller contributions—up to 6.0% on a minimum down payment mortgage. In the past, FHA has proposed to lower this maximum to 3.0%.
* 100% gifts allowed with minimum down payment mortgage.
* Higher ratios—31/43 is the base with flexibility.
* Non-owner occupant co-borrowers allowed with a minimum down payment mortgage.
* Citizenship not required with a minimum down payment mortgage.
* FHA loans are assumable at the note rate by qualified owner-occupants.
* FHA streamline refinances—low doc refinances for FHA-to-FHA refinances. Some lenders offer for owners who do not still live in the home.
* Cash out refinances to 80% with no higher rate. Lenders may add surcharge.
* Condominiums are acceptable with 51% owner-occupancy within the project.
* Non-traditional credit histories can be considered.
* Minimum down payment allowable with a credit score down to 580.
* 2-4 Unit properties with minimum down and higher loan amounts. Lenders may require higher down payment.
* As noted previously, the pricing can be significantly better than conforming conventional loans for those with lower credit scores.
* Loans meeting FHA guidelines also meet Qualified Mortgages (QM) and Ability to Repay Guidelines.

*Who is eligible to obtain FHA mortgages?*

Any borrower of legal age can participate in The FHA Mortgage Program. Citizenship is not required, though physical evidence of a social security number and picture identification must be presented at loan application. The lender must determine residency status for non-U.S. citizens. There are no income restrictions, however FHA’s published maximum mortgage limits ensure the program will serve primarily lower and middle-income homeowners. In addition, all parties to the transaction must be checked through the Denial of Participation List and the Federal Government’s List of Excluded Parties. The validity of the social security number is verified as well.

Two or more borrowers, or *co-borrowers*, can finance a house under The FHA program. These co-borrowers need not be related, but they must have a family-type relationship if one of the co-borrowers does not occupy the house. In this case the *co-borrower* is defined as a *non-owner occupant co-borrower*.

FHA currently limits one FHA mortgage per borrower that can be outstanding at any one time. Prior to 1992, each borrower was limited to one *high balance* (defined as above 75% loan-to-value) FHA mortgage outstanding at one time. Currently, there are exceptions to the one FHA mortgage rule for hardship situations. Exceptions include transfers in which the home currently owned and financed by FHA cannot be sold, a new home is mandated by an increase in family size, or the home being vacated will be occupied by a co-mortgagor. In the price range of FHA mortgages, borrowers retaining more than one FHA mortgage are not common—especially now that assumptions are restricted to owner occupants.

In late 2008, FHA added a requirement for applicants that already owned a property being converted to a rental upon purchasing a home using FHA financing. With a few exceptions such as a present loan-to-value below 75% on the presently owned home, the owner cannot use rental income on the present home to qualify for the new home because FHA was concerned that homeowners would take advantage of market conditions at the time to walk away from their present homes that are “under-water” while purchasing a new home at a lower value.

In 2003, FHA released its ban on financing when the property is being “flipped” as defined by a resale in the first 90 days after a home is purchased. Resales within 91-180 days may require additional documentation if the original value increases significantly. The sale must also be from the owner of record. In December of 2004, FHA specifically exempted property acquired through inheritance or properties bought and sold through FHA or other governmental agencies and in 2008 FHA also exempted bank-owned properties. In February 2010, FHA instituted a waiver of this regulation for one year because of economic conditions as long as certain conditions were met. This waiver enabled investors to purchase foreclosures, fix up the properties and sell to buyers that are using FHA financing, many of whom would be first time homeowners. Subsequently, the waiver was extended and the waiver expired December 31, 2014.

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| **NATIONAL FHA MAXIMUM LOAN LIMITS***.* |
| *\*Limits above* ***$510,400*** *are also applicable to conforming loans* | ***1 Unit*** | ***2 Units*** | ***3 Units*** | ***4 Units*** | ***Percent of******Conforming******Limits*** |
| **Base Loan Limits:****Max. High Cost:\*** | $331,760$765,600 | $424,800$980,325 |  $513,450$1,184,925 |  $638,100$1,472,550 | 65%150% |
|  |  |  |  |   |  |
| **Northeast** |
| Connecticut |  | New Hampshire |  |   |  |
|  Bridgeport | $601,450 |  Manchester | $339,250 |  Orange | 356,500 |
|  Hartford | 353,050 |  |  |  Rochester | 331,760 |
|  New Haven | 331,760 | New Jersey |  |  Syracuse | 331,760 |
|  New London | 314,827 |  Atlantic City | $331,760 |  |  |
|  Stamford | 601,450 |  Atlantic/ |  | Pennsylvania |  |
|  |  |  Cape May | 414,000 |  Allentown | $372,600 |
| Delaware |  |  Bergen | 765,600 |  Lancaster | 331,760 |
|  Wilmington | $408,250 |  Camden | 408,250 |  Philadelphia | 408,250 |
|  |  |  Newark/Edison | 765,600 |  Pittsburgh | 331,760 |
| Maine |  |  Trenton | 345,000 |  State College | 331,760 |
|  Portland | $366,850 |   |  |  York | 331,760 |
|  |  | New York |  |  |  |
|  |  |  Albany | $331,760 | Rhode Island |  |
| Massachusetts |  |  Buffalo | 321,760 |  Providence | $460,000 |
|  Boston | $690,000 |  Dutchess | 356,500 |  |  |
|  Cambridge | 690,000 |  Nassau-Suffolk | 765,600 |  |  |
|  Nantucket County | 765,600 |  New York/NJ |  | Vermont |  |
|  Springfield |  331,760 |  SMSA | 765,600 |  Burlington | $368,000 |
| **Southeast** |
| Alabama |  | Kentucky |  | South Carolina |  |
|  Rest of State Tuscaloosa | $331,760331,760 |  Entire State Louisville | $331,760$333,500  |  Charleston Columbia | $391,000331,760 |
|   |  |  |  |  Hilton Head | 350,750 |
| Arkansas |  | Louisiana |  |  |  |
|  Entire State | $314,827 |  Entire State | $331,760 | Tennessee |  |
|  |  |   |  |  Nashville | $563,500 |
|  District of Columbia | $765,600 | Maryland  |  |  Memphis |  331,760 |
| VA/MD/WVA MSA |  |  DC MSA | $765,600 |   |  |
|  |  |  Annapolis | 520,950 |  |  |
| Florida |  |  Baltimore | 520,950 | Texas |  |
|  Daytona Destin | $331,760391,000 |  |  |  Austin | $404,800 |
|  Ft Meyers | 331,760 | Mississippi |  |  Dallas | 404,800 |
|  Ft. Lauderdale | 373,750 |  Entire State | $331,760 |  Houston | 331,760 |
|  Jacksonville Key West | 373,750552,000 |  |  |  San Antonio | 393,300 |
|  Miami | 373,750 | North Carolina |  |   |  |
|  Naples Orlando Sarasota Tampa | 450,800314,827331,760331,760 |  Boone Charlotte Durham Elizabeth City |  $331,760  331,760 414,000 765,600 | Virginia (DC MSA) Blacksburg/  Lynchburg Charlottesville  | $765,600331,760437,000 |
|  West Palm Beach | 373,750 |  Jacksonville Raleigh | 331,760353,050 |  Norfolk/ Virginia Beach |  458,850  |
| Georgia |  |  Wilmington | 331,760 |  Richmond Winchester | 535,900331,760 |
|  Athens Atlanta | $379,500401,350 | Puerto Rico San Juan | $385,250 | West Virginia (DC) |  $765,600 |
|  Columbus  | 331,760 |  **Table 2-6** |  |  Martinsburg |  331,760 |
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| **Midwest** |
|  |  |  |  |  |  |
| Idaho |  | Kansas |  | North Dakota |  |
|  Boise City |  366,850 |  Kansas City | $351,900 |  Billings County | $339,250 |
|  Blaine | 646,300 |   |  |   |  |
|  |  |  |  |  |  |
| Illinois |  | Michigan |  | Ohio |  |
|  Chicago | 368,000 |  Ann Arbor | $331,760 |  Akron | $331,760 |
|  Rockford | 339,250 |  Detroit | 331,760 |  Cincinnati | 331,760 |
|  |  |  Kalamazoo | 331,760 |  Cleveland | 331,760 |
|  |  |  |  |  Columbus | 373,750 |
| Indiana |  |  |  |  Dayton | 331,760 |
|  Gary | $368,000 | Minnesota |  |  |  |
|  Indianapolis |  355,350 |  Minneapolis/ St. Paul | $382,950 | South Dakota |  |
|   |  |  |  |  Entire State | $331,760 |
|  |  |  |  |  |  |
| Iowa |  | Missouri |  |  |  |
|  Entire State | $331,760 |  Kansas City | $351,900 | Wisconsin |  |
|   |  |  St. Louis | 331,760 |  Kenosha/Chicago | $368,000 |
|   |  |  |  |  Madison | 333,500 |
|  |  | Nebraska |  |  Milwaukee | 339,250 |
|  |  |  Lincoln | $331,760 |   |  |
|  |  |  |  |  |  |
| **West** |
| Alaska |  | Colorado |  | Oregon |  |
|  Anchorage | $411,700 |  Aspen | $765,600 |  Bend | $431,250 |
|  Juneau | 455,400 |  Boulder | 644,000 |  Eugene | 331,760 |
|   |  |  Denver | 575,000 |  Portland | 491,050 |
| Arizona |  |  Vail | 765,600 |  Medford | 333,500 |
|  Phoenix | $331,760 |  |  |   |  |
|  Tucson | 331,760 | Hawaii |  | Utah |  |
|  Flagstaff | 362,250 |  Honolulu | $721,050 |  Ogden | $646,300 |
|  |  |  Kauai County | 713,000 |  Provo | 401,250 |
| California |  |  Maui County | 690,000 |  Salt Lake City | 416,300 |
|  Bakersfield | $331,760 |  |  |  St George | 377,200 |
|  Fresno | 331,760 | Montana |  |  |  |
|  Los Angeles | 765,600 |  Billings | $331,760 | Washington |  |
|  Marin | 765,600 |  Missoula | 350,750 |  Bremerton | $395,600 |
|  Modesto Monterey Oakland | 365,700672,750 765,600 | Nevada Carson City | $361,100 |  Bellingham Olympia Seattle | 411,700370,300741,750 |
|  Orange County | 726,525 |  Las Vegas | 345,000 |  Tacoma | 741,750 |
|  Sacramento | 569,250 |  Reno | 437,000 |  Vancouver | 491,050 |
|  Santa Barbara | 653,200 |   |  |   |  |
|  San Bernardino | 442,750 |  |  |  |  |
|  San Francisco | 765,600 | New Mexico |  | Wyoming |  |
|  San Diego | 701,500 |  Albuquerque | $331,760 |  Jackson | $765,600 |
|  San Jose | 765,600 |  Los Alamos | 431,250 |  Rock Springs | 331,760 |
|  San Luis Obispo | 690,000 |  Santa Fe | 368,000 |  |  |
|  San Mateo | 765,600 |  |  |  |  |
|  Santa Cruz | 765,600 | Oklahoma |  |  |  |
|  Santa Rosa | 704,950 |  Entire State | $380,650 |  |  |
|  Vallejo | 506,000 |   |  |  |  |
|  Ventura | 713,000 |  |  |  |  |
| *Note: This chart represents a sample of major metropolitan areas designated as base and high cost areas and published by FHA as of January 2020**and may change during the year. It does not represent all areas designated by FHA. Maximum limits are 1.5% higher in Alaska, Hawaii, Guam and the Virgin Islands.*  |  |  |  |  |  |
| **Table 2-6 (Continued)** |  |  |  |  |  |
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***Types of transactions financed under FHA***

FHA finances the following types of transactions:

* *Owner-occupied purchase transactions* (203b). The vast majority of FHA financing is for purchases of primary residences that must be occupied within 60 days of settlement. Investors cannot finance purchases through FHA and the financing of second homes is restricted to *hardship* situations. FHA is prohibited from insuring a mortgage on a second home that is a vacation or investment property.
* *Owner-occupied rate reduction[[1]](#footnote-1) refinance transactions (203b).* Homeowners can refinance their current mortgage through the FHA program. If the homeowner currently has an FHA mortgage on the property and the new FHA mortgage will result in a lower payment, the homeowner can participate in *FHA Streamline*, or *FHA Rate Reduction*, refinance program.

This program traditionally has required no income re-qualification as long as there is a good mortgage payment history, however, in 2009 FHA started requiring verification of assets and income. Appraisals are not required by FHA but may be required by the lender. In 2011, FHA eliminated the option to include financed closing costs if an appraisal supporting the request was completed. A borrower may not receive cash back under this program except for minor adjustments that may occur at closing and these adjustments may not exceed $500. Under the *FHA Streamline Program*, a homeowner who no longer lives in the property but has an FHA mortgage can obtain an FHA mortgage with a lower payment through a refinance. Few lenders offer this option and typically they would require a maximum 85% LTV. FHA streamline mortgages are also required to provide a net tangible benefit to the borrower. In 2017, Ginnie Mae added a requirement that the existing loan must have six payments made before refinancing.

Refinancing a conventional mortgage to an FHA loan with full processing has an allowable 97.75% LTV. In late 2010, FHA added a requirement that refinances also subordinating a second lien could have a maximum combined loan-to-value (CLTV) of 97.75% as well as 125% CLTV for Streamline Refinances. FHA also added a provision that the second lien would not be subject to geographic loan limits.

Net Tangible Benefit Chart



**Table 2**

* *Refinances for those behind in their payments and “under-water.”*  In reaction to the housing crisis, in 2007 FHA introduced the FHA-Secure Program to facilitate refinances for those who were subject to increases in payments due to adjustments in the rate of their adjustable rate mortgages. This program was eliminated at the end of 2008 and replaced with the HOPE for Homeowners Program, a broader refinance program that was available to those behind on their payments and underwater in their homes. The HOPE for Homeowners program also was not widely used because of the requirements that lenders reduce the principal of these mortgages. In 2010, FHA added a refinance program aimed at homeowners who are in negative equity position. This program was effective until December 31, 2012 and was extended to an expiration date of December 31, 2016. Under this program, the present mortgage has to be a conventional mortgage and the maximum LTV is 97.75% with a maximum CLTV of 115%. As in earlier efforts, this program was not widely used.
* *Owner-occupied cash-out refinance transactions (203b).* An existing homeowner can refinance his/her 1-2 unit primary residence to *take cash out* up to 80% of the *appraised value* of the property if the property is owned by the homeowner for at least 12 months prior to the refinance. If owned less than 12 months, the original sales price must be taken into consideration. In other words, if a homeowner had a property worth $100,000 and a present mortgage of $50,000, the homeowner could obtain a new mortgage of $80,000. The maximum CLTV for these mortgages are also 80% and there must be no late payments on the current mortgage for the past 12 months.
* *Rehabilitation mortgages (203k).* These mortgages are used for the acquisition of owner-occupied properties that need repairs or *rehabilitation*. The cost of rehabilitation can be included in the mortgage amount with no additional down payment required. The eligible improvements must amount to at least $5,000 under this program. Minor improvements amounting to less than $5,000 are not eligible. The lender advances money to acquire the property and places the excess necessary to complete the repairs in *escrow[[2]](#footnote-2)*—the estimate of which is determined by plans submitted at the time of the loan application. The repair money is then released in increments, or draws, as the work is accomplished in stages.
* *Streamline K Limited Repair Program.* In 2005, FHA introduced a program that allows inclusion of $35,000 of repairs to be financed without plans and specifications when a borrower is acquiring an FHA financed property. FHA specifies what type of repairs can be financed with this program and it excludes major remodeling.
* *Qualified veterans (203b Vet).* FHA financed purchases for qualified veterans. This program did not differ from any other FHA program except for a lower down payment. The program was open to all veterans, but was not for active military personnel. A *Certificate of Veterans Status* from the VA was required. With FHA mandating a minimum down payment of 3.5% nationally in 2008, the FHA Vet program became obsolete.
* *Assumptions.* FHA mortgages are assumable at the present interest rate, including fixed rate mortgages. Assumptions require qualification of the buyer and a fee of $900 plus allowable third-party expenses. Investors cannot assume these mortgages.

*Types of properties eligible for FHA*

Generally, FHA programs include all properties that contain up to four units. Condominium projects must be approved by FHA for properties within the developments to obtain FHA financing. In January 2003, FHA announced it would no longer require approval of planned unit developments (PUDs). FHA does not finance farms and the land upon which the property is located cannot exceed what is necessary for *livability*.

The issue of condominium project approval is the most complex property issue associated with FHA mortgages. In 2009, FHA completely revised their condominium guidelines to include the ability of lenders to approve projects directly (DELRAP) and these were finalized and implemented in 2011. FHA can still approve projects directly (HRAP). In general, condominium projects must adhere to the following rules:

* Lists ineligible projects, including condo-tels, multi-dwelling units, time shares, houseboats.
* Project approval not required for single family detached condos but they can’t be manufactured homes.
* Project approval not required for streamline refinances or HUD owned property sales.
* Environmental reviews: For HUD review not required if construction is beyond stage that HUD can influence and local jurisdictions have approved. For lender review is not required but if appraisal indicates an environmental condition, it must be mitigated.
* Project eligibility standards include no more than 25% commercial; no more than 10% owned by one investor; no more than 15% in arrears on dues; at least 50% of units must be presold; 50% owner-occupied on sold units; phasing allowed; no more than 50% of units in the complex can have FHA insurance (concentration); andassociation must have adequate reserves. In October of 2016, FHA issued a letter allowing exceptions to the owner-occupancy limits down to 35% under certain conditions.
* The one year waiting period for conversions was eliminated. If converted from rental, the property is treated as new construction.
* Once on approval list, resubmission of project is not required. Recertification is required after two years. If previously approved, a special certification by lender is required.

In November, 2015, FHA released a Mortgagee Letter which temporarily loosened its requirements for condominium project approvals. The provisions contained in this letter were made effective upon the issuance of the letter and expire one year from the date of the letter, but were extended in 2016. The letter covers three areas of leniency: revised calculations of FHA required owner-occupancy percentage, an expansion of eligible condominium project insurance coverage and revised requirements for obtaining condominium project recertification. This owner-occupancy standard allows the inclusion of units as owner-occupied which are not investor owned, such as units under contract to intended occupants. The project certification allows submissions within six months after certification expires and only documentation that varies from the original submission needs to be submitted.

FHA appraisals traditionally were called *conditional commitments*. These appraisals were valid for six months and approvals issued were called *firm commitments*, which expired when the *conditional commitments* expired. A blanket appraisal could be accomplished for a new subdivision and this was called a *master conditional commitment*, or *MCC*. These were later re-named, *master appraisal reports (MARs)* and were valid for one year.The use of MARs was eliminated in 2011 because in 2009 FHA shortened the validity period of appraisals to 120 days.

In 2005, FHA issued a mortgagee letter that as of January 1, 2006, adopted the use of Fannie Mae appraisal forms*.* This same letter ended the use of the VC Form for required repairs and a subsequent letter specified that FHA was no longer requiring minor repairs such as replacing loose handrails. In late 2009, FHA also issued guidelines similar to the Home Valuation Code of Conduct (HVCC) that limited the ability of production personnel to select appraisers and have direct interaction with appraisers in order to limit undo pressure with regard to the achievement of certain targeted values.

If the lender is *Direct Endorsement* (the lender approves FHA mortgages without sending the mortgage to FHA), the designated appraiser sends the appraisal directly to the lender and the lender issues the appraisal. Appraisers approved by FHA are said to be on the HUD Appraisal Roster. In 2009, FHA added a requirement that all HUD appraisers had to hold state licenses.

*Mortgage types offered under FHA*

FHA Mortgage Program offers several types of mortgage instruments:

* *Fixed rate mortgages.* FHA will insure fixed rate mortgages that carry anywhere from a 15 to 30 year term. It is typical for FHA fixed rate mortgage pools to be securitized and sold through Ginnie Mae, which is also a Division of HUD. Until November 30, 1983, FHA published an interest rate ceiling that was set in tandem with VA's maximum interest rate. On that date, FHA deregulated the interest rate and the rate and discount points became negotiable between the borrower and the lender. For the first time the borrower was eligible to pay discount points.
* *Fixed rate buydowns.* FHA allows the temporary buydown of FHA fixed rate mortgages. As of July of 2004, qualification must be at the note rate of the mortgage. Increases are limited to no more than 1.0% each year. Because of Ginnie Mae securitization requirements for these types of loans, the price of an FHA mortgage with a buydown may be greater than a comparable FHA fixed rate mortgage, even with the cost of the buydown taken into consideration.
* *Adjustable rate mortgages (251).* FHA insures adjustable rate mortgages. The 1-year and 3/1 and 5/1 adjustables have caps of 1.0% each year and 5.0% over the life of the mortgage. The 7/1, and 10/1 adjustables have 2.0% annual caps and 6.0% life caps. The 5/1 was originally restricted to a 1.0% annual cap and 5% life cap, however subsequently
Congress authorized 2.0% annual caps and a 6.0% life cap to allow for easier securitization. Lenders may offer either option. The down payment and qualification guidelines mirror those of FHA fixed rate programs. FHA borrowers applying for 1-year ARMs must qualify at the start rate plus 1.0% if the LTV is 95% or greater. Additional hybrid adjustable are available, including 5/1, 7/1, and 10/1 adjustables -- with 5.0% life caps (5/1) and 6.0% life caps (7/1 and 10/1). The 5/1 was originally restricted to 1.0% annual caps, however subsequently Congress authorized 2.0% annual caps to allow for easier securitization but lenders may offer the 1.0% cap. (remove) FHA adjustables do not allow temporary buydowns.
* *Reverse mortgage program (255).* Home Equity Conversion Mortgages (HECM) provide equity-rich elderly homeowners with the opportunity to convert their equity into monthly income or a line of credit to help them meet living expenses while they remain in their homes (see previous section “Types of Mortgages”). In 2003, FHA allowed the borrower to lock in rates at the beginning of the process rather than closing and in 2006, extended the time that borrowers could lock up to 120 days from 60 days.

In 2008, the national loan limit for reverse mortgages was set at the conforming limit of $417,000. This limit was raised to the high cost maximum (currently $765,600) under the Economic Stimulus Act and subsequent legislation. In late 2010, FHA introduced a “HECM Saver” mortgage that required virtually no up-front mortgage insurance premium but produces a smaller benefit to the homeowner (subsequently eliminated). In 2013, FHA introduced modifications to the program which included a limitation of the amount of cash disbursement in the first year, increased mortgage insurance costs and also added a requirement for a financial assessment to be performed. In 2018, FHA began to require two appraisals for certain reverse transactions.

For those who do not meet requirements for residual income, the lender must implement options to either set-aside money to pay escrows or for the lender to be authorized to pay escrows directly. Implementation of the financial assessment and escrow requirements were scheduled to be implemented in January of 2014, but were subsequently delayed by FHA and not implemented until 2015.

* *Energy Efficiency Improvements.* Under the FHA EEM Program, a borrower can finance into the mortgage 100% of the cost of eligible energy-efficient improvements. In 2009, the maximum amount of improvements was changed to the lesser of 5% of:
	+ The value of the property;
	+ 115% of the median area price of a single family dwelling; or
	+ 150% of the conforming loan limit.

To be eligible for inclusion into the mortgage, the energy-efficient improvements must be "cost effective," i.e., the total cost of the improvements (including maintenance costs) must be less than the total present value of the energy saved over the useful life of the improvements. No additional down payment is required and the program can be used for purchases or refinances. In September of 2015, FHA issued a Mortgagee Letter updating FHA’s EEH minimum energy efficiency standard to the most recent International Energy Conservation Code (IECC) adopted by the Department of Housing and Urban Development (HUD) for loans on new construction. The Mortgagee Letter also adds the use of the DOE’s Home Energy Score option for existing homes.

*Costs to obtain an FHA mortgage*

This section covers costs of obtaining an FHA mortgage that are unique to the FHA program.

* *Down payment.* Until December of 2008, FHA mortgages required a minimum of 1.25% to 2.85% down payment, depending upon the sales price and whether the property was in a “high-closing cost” or “low-closing cost” state. In addition, a minimum 3.0% was required to be invested in the transaction from the borrower’s funds. Effective January of 2009, Congress changed the requirement to a 3.5% down payment requirement across the board with no separate minimum investment requirement. In 2010, FHA announced that they would require a 10% down payment for those with a credit score below 580.
* *FHA mortgage insurance.* FHA mortgage insurance, typically referred to as MIP, is the one closing cost that is unique to FHA mortgage programs. Every FHA mortgage must have mortgage insurance, regardless of the amount of the down payment. FHA collects mortgage insurance up-front and monthly. The exemption from upfront MIP for condominiums and rehabilitation mortgages was ended effective January 1, 2006.

* *Changes in Premiums.* In mid-2008, FHA implemented a risk-based premium table for up-front and monthly MIP, with variations for LTV and credit scores. Congress passed a moratorium on this strategy for one year starting October 1, 2008 and it was never reenacted. There have been many changes in the mortgage insurance premiums since that time and these are summarized in Table 5. which contains a history from 2008 to the present. This history has included several increases in up-front and annual premiums starting in 2010 which were designed to strengthen FHA’s finances with a reduction in January of 2015 for mortgages with longer than a 15 year term.

|  |
| --- |
| **Refunds of One Time FHA MIP** |
| Previously, HUD would refund unearned Mortgage Insurance Premium (MIP) if the mortgage was terminated before maturity of the mortgage. Presently, this refund will only take place for FHA-to-FHA refinances. Listed below are percentages of one-time Mortgage Insurance Premiums (MIP) refunded to FHA mortgagors when contract insurance is terminated. |
| **Insurance** **Terminated at the** | **Percentage of** **MIP Refunded** |
| **End of Policy Year** |  | **3 Years** |
| 1 |  |  58% |
| 2 |  |  34% |
| 3 |  |  10% |
|  | **Table 3**  |  |
|  |  |  |
|  |

* *Up-front premium.* The entire amount of this MIP can be financed into the loan amount…
* If the FHA loan amount is $100,000 *(base mortgage amount)*;
* The mortgage insurance premium would be $1,750($100,000 x 1.75%);
* The mortgage amount including MIP would be $101,750 ($100,000 + $1,750)

What really happens during an FHA mortgage transaction is that the borrower owes FHA a lump sum mortgage insurance premium. The lender making the FHA mortgage will actually lend the money for the premium to the borrower and send the money to FHA so that the mortgage will be insured. FHA issues a *mortgage insurance certificate*, or *MIC*, to the lender that must be sent to Ginnie Mae as proof of insurance so the mortgage can be included with other mortgages in a *pooled mortgage security sale.* FHA will now refund the unused up-front MIP[[3]](#footnote-3) for FHA-to-FHA refinances only under a 3-year schedule (See Table 3).

* *Monthly mortgage insurance.* The amount of monthly MIP depends upon the amount of the down payment -- or the loan-to-value (LTV) -- and type of mortgage
* If the FHA loan amount is $100,000 *(base mortgage amount)*;
* The mortgage insurance premium would be 0.85% (30 year over 95% LTV)
* The monthly cost would be approximately $70.83 ($100,000 x 0.85% divided by 12).
* *Cancellation of Monthly*

*Mortgage Insurance.* For 30-year mortgages closed after January 1, 2001, the premium is eliminated when the loan balance is 78% of the original purchase price, provided the premium has been paid for at least five years. Loans originated after June 3, 2013 have a cancellation policy which varies in accordance with the scheduled shown in the Table 4.

* *FHA streamline refinances.* As discussed previously, FHA streamline refinances are simplified refinances that allow the borrower to lower the rate on current FHA mortgages with minimum documentation. Any refund of the MIP due under the three-year schedule from the refinance of the old mortgage would be applied to the new MIP due. For example:

- Original Base Mortgage Amount: $100,000 ($101,000 with MIP)

- New Base Mortgage Amount $101,750 w/MIP

- MIP Refund From Previous Mortgage: $500 (loan just over one year old)

- New MIP: $102,000 x 1.75% = ($1,750 - $500 refund) $1,250

Note that premiums for streamline refinances for loans closed before May 31, 2009 have reduced up-front and monthly premiums. The up-front cost is nominal at 0.01% and the annual premium is 0.55%. This change was implemented in June of 2012. Effective 1/27/2017, the annual premiums for these streamline refinances were lowered to 0.25% for the 15-year terms.

**FHA MORTGAGE INSURANCE CANCELLATION POLICIES**

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**Table 4**

**HISTORY OF FHA MORTGAGE INSURANCE CHART**

|  |
| --- |
|  **LOAN-TO-VALUES** |
| **YEARS** | **UPFRONT MIP** | **90% or Below** | **90% TO 95%** | **ABOVE 95%** |
| 4/5/2010 and after: 30yr | 2.25% | .50% | .50% | .55% |
| 4/5/2010 and after: 15yr | 2.25% | None | .25% | .25% |
| 10/4/2010 and after: 30yr | 1.00% | .85% | .85% | .90% |
| 10/4/2010 and after: 15yr | 1.00% | None | .25% | .25% |
| 4/4/2011 and after: 30yr | 1.00% | 1.10% | 1.15% | 1.15% |
| 4/4/2011 and after: 15yr | 1.00% | .25% | .50% | .50% |
| 4/9/2012 and after: 30yr | 1.75% | 1.20% | 1.25% | 1.25% |
| 4/9/2012 and after: 15yr | 1.75% | .35% | .60% | .60% |
| 4/1/2013 and after: 30yr | 1.75% | 1.30% | 1.35% | 1.35% |
| 4/1/2013 and after 15yr | 1.75% |  .45% | .70% | .70% |
| 1/26/2015 and after 30yr | 1.75% |  .80% | .85% | .85% |

**Table 5**

* FHA Streamline refinances are the same as the schedule shown above. However, if the loan being refinanced was originated on or before May 31, 2009, the up-front cost is nominal at 0.01% and the annual premium is 0.55%. This change was implemented in June of 2012.
* The annual premium is .20% higher for 30-year mortgages above $625,500. The annual premium is .25% higher for 15-year mortgages above $625,500 above 90% LTV. The annual premium is .25% lower for 15-year mortgages below 78% LTV for any loan size.

**FHA REVERSE MORTGAGE INSURANCE PREMIUMS**

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**Table 6**

* Above premium schedule effective September 30, 2013
* Previously the up-front MIP was 2.0% for Reverse Mortgages and in September 2010, the HECM or Reverse Mortgage “Saver” Program was introduced with an upfront premium of only 0.01%.
* In September of 2013 the “Standard” and “Saver” options were consolidated into the above schedule.

***Additional Considerations***

While there are no other unusual costs associated with procuring an FHA mortgage, there are a few other rules that are interesting to note:

* *Non-allowable FHA closing costs.* In January of 2006, FHA eliminated the practice of prohibiting the borrower from paying certain lender fees, except the tax service fee. Before this time, the seller was required to pay most miscellaneous lender fees and the fees could not be charged at all on refinances. Those obtaining reverse (HECM) mortgages continue to be prohibited from paying these fees.

* *Seller Contributions.* The seller is not allowed to *contribute* more than 6.0% of the sales price toward the borrower's closing costs. Allowable seller *contributions* include: discount points, prepaids, closing costs, and funds toward a temporary buydown. Any contribution over 6.0% increases the down payment to the purchaser.
* *Grant Programs.* FHA allows the down payment and closing costs to come from a grant or a loan from a local or state housing agency. Previously FHA allowed grants from non-profit agencies that were funded through the seller, but this practice was eliminated in 2008.
* *Lender paid closing costs.* The borrower may opt for a higher interest rate that will enable the lender to give a credit towards the borrower's closing costs. This does not affect the required FHA down payment in any way, unless the discount points to the seller are increased to accommodate this credit.
* *FHA prepayments.* For loans closed before January 25, 2015, during the payoff of an FHA mortgage, the lender has the right to collect interest to the end of the month in which the payoff occurs. This is important to note because a homeowner selling or refinancing a home with an FHA mortgage should schedule the closing towards the end of the month, but not the last day because this may not leave enough time for the closing agent to get the payoff to the present lender. If the payoff is received by the lender one day late, the lender will be entitled to charge an extra month's interest.

***FHA Qualification Requirements***

The qualification requirements for FHA mortgages are less stringent than comparable conventional mortgages. The following differences highlight the extent of this leniency:

* *Qualification ratios.* While standard conventional qualification ratios are 28/36, FHA allows a housing ratio of 31% and a debt ratio of 43%. These ratios were expanded from 29/41 in April of 2005. Ratios for mortgages with energy efficiency improvements (EEMs) were expanded to 33/45. If the published ratios are exceeded on manually underwritten mortgages, one or more of the following *compensating factors* must be present (these factors were updated with the release of the new FHA Handbook 4000.1 in September of 2015:
* Documented cash reserves (3 months reserves for 1-2 units, 6 months reserves for 3-4 units).
* No discretionary debt.
* Positive residual income using VA family support factors.
* A minimal increase in housing expense.
* The borrower receives compensation not reflected in the effective income, but directly affecting the ability to pay the mortgage and other obligations.
* The ratios may be exceeded by 2% when the dwelling has been identified as energy efficient.

It should be noted that most FHA mortgages are now underwritten through automated underwriting systems and these systems may approve ratios significantly higher than 31/43 when positive factors such as high credit scores exist. However, lenders may have standards that are more stringent than FHA.

* *Cash requirements are less.* The cash requirements for an FHA transaction can be less than those for a comparable conventional transaction:
* FHA requires less than the typical 5.0% down payment required on comparable conventional mortgages. Conventional mortgages requiring less than 5.0% down typically require higher credit scores, a higher interest rate, higher mortgage insurance costs and/or maximum income limits.
* FHA does not require cash reserves, except for loans that are required to be manually underwritten. Three months reserves are required on 2-4 unit properties.[[4]](#footnote-4) These reserves cannot come from a gift.
* All cash may come from a gift from an immediate family member, or someone with a *family-type* relationship. Many conventional mortgages require 5.0% of the cash to be from the purchaser's own funds. If deposited in a supervised account, gifts from a bridal registry or other legitimate occasion where substantial gifts are typically received are allowed.
* The funds for down payment and closing costs can be borrowed, but the loan must be secured and the borrower must qualify for the additional monthly payments. Funds for the down payment can be borrowed from or be provided by a government agency.
* All mortgage insurance can be financed in the mortgage amount rather than paid in cash.
* *Credit Scores.* FHA does not have a minimum credit score requirement. During the three-month implementation of the risk-based insurance schedule in 2008, FHA did vary insurance costs by credit score. Low credit scores also will significantly affect the results of automated underwriting systems. In May of 2004, FHA required the use of its TOTAL Mortgage Scorecard as a tool to evaluate the results of automated underwriting systems. Note that lenders can always be more stringent than FHA and it is typical for lenders have a minimum credit score for FHA loans. In October of 2010, FHA implemented a minimum score requirement of 580 for down payments of less than 10%. If the automated underwriting system “refers” a loan or it cannot be decisioned because of insufficiency of credit or other factors, it must be manually underwritten and special guidelines apply to manually underwritten loans.
* *FHA co-borrower rules.* FHA allows co-borrowers to help qualify for the mortgage and these co-borrowers do not have to live in the property (one-unit properties only).[[5]](#footnote-5) Non-owner occupant co-borrowers must be an immediate family member or have a *family-type* relationship, and cannot contribute the vast majority of resources (cash and income) to the transaction. In other words, it must make sense that the occupant can make the payments and that the co-borrower is not an investor.
* *Non-citizens.* Borrowers do not have to have a *green card [[6]](#footnote-6)* to receive an FHA mortgage. They must have a valid social security number and must be in the country legally. The social security number will be validated by FHA. Lender requirements may be more stringent in this regard.
* *Second mortgages.* Governmental agencies may lend money for second mortgages to defray the purchase costs for qualified purchasers. Otherwise, FHA is more stringent than most mortgage programs with respect to the placing of the second mortgage behind an FHA mortgage during a purchase transaction. FHA does allow the placing of a second mortgage. however:
* The combination of the first and second mortgage cannot lower the required down payment,
* Regardless of the loan-to-value on the first mortgage due to the existence of the second mortgage, the purchaser must still pay FHA mortgage insurance.
* In 2010, FHA changed two requirements with regard to second mortgages. First, the combined mortgage amount of the first and second trust now can exceed FHA maximum mortgage limits set in the local jurisdiction. Second, refinances are now subject to CLTV restrictions as noted earlier in this section.

In other words, other than exceeding the maximum mortgage limits in a particular jurisdiction, there is no advantage to placing a second mortgage behind an FHA first mortgage. There are no restrictions regarding placing a second mortgage behind an FHA mortgage when the FHA mortgage is being assumed by the purchaser of the property, lessening the cash required.

* *Disadvantages.* No loan program comes without disadvantages. FHA mortgages are less advantageous than conventional alternatives when a larger down payment is made (or there is significant equity in a refinance) because mortgage insurance is always required. FHA also requires many forms in addition to forms required by conventional alternatives.
* *Manually Underwritten Loans.* In early 2014, FHA issued additional guidelines for loans which are not approved through their automated TOTAL Scorecard Program. If the loan is underwritten manually and over 580 credit score (under 580 ratios can’t be exceeded):
* Ratios of 31/43 (33/45 for energy efficient loans) may not be exceeded if no compensating factors are present.
* Ratios of 37/47 may not be exceeded if one compensating factor is present.
* Ratios of 40/50 may not be exceeded if two compensating factors are present.
* Ratios of 40/40 for those without any discretionary debt besides housing.

Compensating factors include three months reserves for 1-2 unit properties, increase in payment limited to 5% or $100, whichever is less, with no more than one 30-day late within the past 12 month (no late payments allowed for cash out refinances) and a positive residual. For category 3 above, the factor of additional verified income not counted is added.

*FHA Underwriting Idiosyncrasies*

*Note that lenders may have requirements that exceed FHA’s requirements.*

* A person can have only one FHA loan at one time (there are hardship exceptions).
* There are limitations as to when a power of attorney can be utilized for the application.
* If actual closing costs are $500 less than original estimates, the final loan amount must be lowered.
* The applicant must invest 3.5% cash into the transaction. Gift funds count as cash investment.
* The initial application and HUD application addendum (2900.1) must be signed prior to underwriting submission.
* FHA will accept alternative documentation
* FHA does not have a no-income verification program (except for a streamline refinance, which is “modified income verification”)
* FHA requires a real estate certification as part of the contract. The certification must be signed by the buyer and the seller and indicates that the contract is the “whole” agreement. An additional certification must be signed as an addendum to the Closing Disclosure.
* The FHA “amendatory clause” specifies the right for the borrower to have the house appraised for at least the sales price or they can withdraw the contact. This is usually part of the contract and otherwise must be signed by the borrower and seller.
* FHA requires picture ID and evidence of social security number.
* Investors cannot assume FHA mortgages.
* No second homes except in “emergency” situations (never vacation properties).
* FHA mortgages are assumable with credit approval.
* New homes (less than one year old) without an approved ten year warranty and without construction approval, require a 10% down payment.
* Sellers can contribute up to 6.0% of reasonable and customary closing costs. Sellers cannot pay for future mortgage payments.
* Repairs needed for eligibility according to the appraiser and paid for the borrower can be added to the mortgage amount.
* Energy efficiency improvements can be added to the mortgage amount.
* Identity of interest transactions are restricted to 85% LTV.
* Three-four unit properties—the property must be self-sufficient and the borrower must have three months reserves.
* 15 days prepaid interest is typically estimated even though no cash reserves are required. Cash reserves may be required as compensating factors for manually underwritten mortgages (see Mortgagee Letter 2014-02).
* Secondary financing for the entire cash investment can be provided by a government agency or an instrumentality of the government.
* Non-traditional credit histories can be considered.
* FHA one-year ARMs are underwritten at the initial rate plus 1.0% if there is less than a 5.0% down payment. Temporary buydowns are not permitted on adjustable and on fixed rates are underwritten at the note rate.
* Bankruptcies occurring more than one year but less than two years from the date of discharge can be considered with extenuating circumstances. Two years are required without extenuating circumstances.
* Foreclosures, Deed-in-Lieu and Short Sales require three years without extenuating circumstances. One to two years if extenuating circumstances and foreclosure did not involve an FHA mortgage.
* The borrower cannot be delinquent on any federal debts.
* Bonus and overtime income that is less than two-years can be considered if continuance is likely and three is more than a one-year history.
* Gifts can be used for the entire cash investment, but must come from relatives or someone with a “family-type” relationship.
* Bridal registry accounts can be used as a source of gifts.
* A rental credit can only be used for the down payment in the portion that exceeds fair value of rent.
* Debts are counted if there are over 10 payments to be made.
* Ratios can be exceeded by 2.0% if purchasing an energy-efficient home.
* FHA requires an IRS form 4506 or 8821 when alternative documentation is used or tax forms are required.
* When financing a HUD-owned property with an FHA mortgage, an appraisal is not required.
* FHA publishes approved condominium lists. You must make sure the phase of the project is approved before ordering an appraisal.

*FHA Refinances*

* FHA *streamline* *program* requires an application and income/asset verification, without qualification. Appraisals are not required, but some lenders may require in certain circumstances. Closing costs can’t be financed on a streamline refinance. Lender credits for closing costs are allowed.
* Full documentation is required for cash out transactions or to finance closing costs.
* Refinance with an appraisal is limited to the same LTV—97.75% as purchases (no cash out). 80% cash out. For cash out must have owned and occupied the residence as a primary residence for the previous 12 months in order to use the appraised value.
* Streamline refinances may not have more than $500 cash to the borrower.
* An FHA investor streamline cannot be financed with an adjustable rate mortgage. Not all lenders offer FHA investor streamlines (owner no longer lives in the property).
* A present second mortgage can be subordinated to the new FHA mortgage on a streamline refinance—without an appraisal, maximum CLTV of 125%.
* You can finance energy efficiency improvements into the loan amount for an FHA streamline refinance.
* Streamline refinances require only a mortgage payment history. Past-due mortgages are not eligible.
* If the Condominium is no longer approved, a streamline can only be done without an appraisal.
* “No cost” refinances (yield-spread pays for the closing costs) are permitted.
* You can streamline an ARM to an ARM but the maximum interest rate on the new ARM cannot exceed the maximum on the old ARM
* An ARM can be streamlined to a fixed rate, but the new rate cannot be any more than 2.0% higher than the present rate on the ARM.
* A fixed rate can be streamlined to an ARM but the new rate must be 2.0% lower.
* The present lender can collect interest to the end of the month when the loan is paid off. This is no longer true for loans made after January of 2015.
* In 2019, Ginnie Mae added a six-month seasoning requirement.

*FHA Disclosures*

*Note that some forms included may no longer be in use. FHA has retired/combined certain forms we include because certain lenders may still be using them.*

* *Addendum to the Uniform Residential Loan Application*. This addendum includes a variety of certifications by the lender and the applicant. It also incorporates the *Privacy Act Notice* and *Assumption Disclosure.*
* *Important Notice to Homebuyer (Borrower’s Notification and Interest Rate Statement and Home Owner’s Fact Sheet)*. Informs the applicant that FHA does not warrant the condition or the value of the property, warns of the penalties for commission of loan fraud, and states that FHA does not set the rate and discount points and that these are negotiable with the lender. Also explains the mortgage insurance refund process.
* *Lead Paint Disclosure*. Warns about the dangers of lead based paint in homes constructed before 1978.
* The *Assumption Disclosure*. Describes FHA policies concerning future assumptions of the mortgage. FHA assumption policies have changed several times in the past. Now all FHA mortgages need credit approval for assumption and cannot beassumed by investors. Informs the applicant that he/she must receive a release of liability from FHA in order not to be responsible for payments after an assumption takes place.
* *For Your Protection: Get a Home Inspection*. Inform buyers that an FHA appraisal is not a home inspection and advise them that an inspection is recommended.
* *Informed Consumer Choice Disclosure Notice*. Compares the cost of an FHA Mortgage to Conventional alternatives, including the costs of Mortgage Insurance.
* *Real Estate Certification.*  Certifies that the terms of the sales contract are true and correct and all terms are disclosed. Signed by the seller and purchaser.
* *Settlement Certification.* FHA requires a notice to the settlement agent that funds are not to be dispersed unless the funds required of the purchaser are coming from the purchaser and not any other party.

*Finding FHA Gold*

*Strategies for Finding FHA Mortgages*

*Purchases*

* Present first time homebuyer seminars and feature FHA as a first time homebuyer product (present with synergy partners including real estate agents). Try inviting a speaker from a local housing agency that can help with the down payment and/or closing costs.
* Work with builder to achieve project approval for a new subdivision. Smaller builders are more likely not to have their own mortgage companies.
* Find a condominium with high investor ratios—but close enough to 50% to achieve FHA approval with a few owner-occupied sales of investor properties. Work with residential real estate agents who either live in the complex or “farm” the complex.
* Attend bridal shows and home fairs. You will find many lenders at home fairs, but few at bridal shows—making your activity more unique. Most who are getting married are also potential home purchasers and/or sellers.
* Work with credit repair agencies. To whom do they refer those who are now ready to purchase because they have completed the program? Do you refer those you cannot finance to these organizations? The law of reciprocity is applicable here.
* Work with local homeownership advocate organizations. They have first time homebuyers contacting them constantly.
* Teach real estate agents how to sell to first time homebuyers. Work with them to jointly market their base (see seminar idea).
* Work with immigrant groups—this represents the fastest growing segment of first time homebuyers.

*Refinances*

* Work with list companies to obtain leads for high-interest rate or high mortgage insurance loans.
* Find investors in FHA approved condominiums.
* Advertise that you carry a limited documentation required refinance program.

Note: in marketing you are not allowed to use the HUD or FHA logo or in any way indicate that you are approved by or working on behalf of a government agency.

Section Two – Department of Veterans Affairs

*Introduction to VA Loans*

The VA program was established in 1944 to provide for the veteran by providing a guaranty against foreclosure. The word "guaranty" is very important in this regard. Unlike FHA mortgages that are insured against default in a program paid for by the users of that program:

* The VA program is not an insurance program, but a benefit program for veterans. Throughout its history, VA losses are not offset by insurance premiums. It was only later in the program history that VA began collecting a *Funding Fee* to offset administrative expenses.
* The VA program guarantees only a *portion* of the mortgage against default while an FHA mortgage is 100% insured against default. If the loss in a foreclosure process exceeds the amount of the VA mortgage guaranty, the lender is at risk. Basically, when a VA mortgage goes into default, VA has the option of taking over the home by auctioning the house and paying off the lender, or remitting to the lender the amount of guaranty in cash and letting the lender dispose of the property. VA lending can be more risky than FHA lending because the lender is giving *recourse*, or is at-risk for future losses beyond those covered with the VA guaranty. Because of this extra risk, it is not unusual for lenders to charge higher points for VA mortgages as compared to FHA.
* The VA home loan program benefits a specific population group comprising veterans, active military and the members of the armed forces reserves. They also make “Native American Direct” mortgages under a special program. FHA is geared to benefit the population as a whole. Like FHA, VA does not provide funds for the mortgage—it facilitates lending by providing assurance against default.

Who is eligible to obtain VA mortgages?

Any Veteran who served on continuous active duty for the number of days required during the time frames listed below and has received an honorable release or discharge is eligible for the program:

|  |  |  |
| --- | --- | --- |
| Post Korean | 2/01/55 to 8/04/64 | 181 Days |
| Vietnam Conflict | 8/05/64 to 5/07/75 | 90 Days |
| Post Vietnam | 5/08/75 to 8/1/80 | 181 Days (10/16/81 for officers) |
| Enter After | 9/07/80 to 8/1/9010/17/81 to 8/1/90 | 24 Months24 Months (Officers) |
| Persian Gulf | 8/2/90 on | 2 Years or Period called to active duty (not less than 90 days) |

Note: If applicants are active military personnel, they need to have served 181 days to be eligible. If they are separated from service, they need to have had 24 months continuous duty to be eligible.

In addition, the following individuals are also eligible for VA Mortgages:

* Commissioned Public Health Officers, National Oceanic and Atmospheric Administration Officers, Environmental Science Service Administration Officers, and Coast and Geodetic Survey Officers.
* A veteran discharged because of service related disability without minimum qualifying time may still be eligible.
* A surviving spouse (not remarried) of a veteran who died, either in service or after separation, as a result of a service connected injury or disease.
* Under the Veterans Home Loan Program Amendments of 1992, individuals who have completed a total of at least six years in the Reserves or National Guard.[[7]](#footnote-7)

There is no limit to the number of VA mortgages a veteran can obtain as long as there is remaining *guaranty* or *eligibility* for each mortgage. Funding fee schedules indicate a higher cost for second time usage. There are some exceptions to the 24-month rule for reductions in force and other discharges for the convenience of the government.

Types of transactions financed under VA

* *Owner-occupied purchase transactions.* The vast majority of VA mortgages are owner-occupied purchase transactions. The purpose of the program is to assist the veteran in obtaining housing.

* *Owner-occupied refinance transactions.* Veterans can refinance their present mortgages for the purpose of lowering the interest rate or taking equity out of the property. The maximum loan-to-value on these transactions was raised from 90% to 100% in October of 2008 but lowered in 2019 to 90% for cash-out transactions. The veteran must have *guaranty* or *entitlement* that was not previously utilized in the procurement of a VA mortgage. The maximum mortgage amount for these loans was previously $144,000, and also in October of 2008 the limit was raised to the conforming loan limit. Note that, like FHA, individual lenders may have requirements which are more stringent than VA and therefore may not allow “cash-out” refinances to 90% of the value of the property.
* *Interest rate reduction refinances.* A veteran can refinance his/her present VA mortgage to reduce the interest rate[[8]](#footnote-8) under the *VA Interest Rate Reduction Refinance Loan (IRRRL)* *Program*. The veteran does not need to continue to live in the home to apply for an interest rate reduction refinance, and a new guaranty is not necessary. VA does not require the verification of income or a new appraisal on these *Interest Rate Reduction Refinance Loans* though lenders may require a new appraisal. All closing costs can be rolled into the new loan amount under this refinance program. VA issued a rule in early 1996 directing that lenders charge no more than two discount points on VA refinances. If the loan exceeds two discount points, a statement must be signed by the borrower and the amount exceeding two points must be paid in cash.

The IRRRL Program requires that the new payment be lower in the new mortgage. The veteran can move to a 15-year mortgage which increases payments under this refinance program. A veteran may refinance out of an ARM, even if the new payment is higher. The lender must certify that the veteran is able to make the new payment in cases where the PITI is increased by 20% or more. In 2017, Ginnie Mae added a requirement that the existing loan must have six payments made before refinancing. In 2018, VA added rules to implement this requirement, including requiring a net benefit for refinances. This net benefit includes a requirement for a 0.5% reduction in rate when refinancing from a fixed-rate VA and a three year recovery of cost requirement.

* *Assumptions.* VA mortgages are freely assumable at the same rate and terms by owner occupants or investors, with a credit check required for mortgages closed after March 1, 1988, but the veteran will not receive his/her eligibility back without a substitution of entitlement. For processing assumptions, the lender can charge $300, and 0.5% is charged by VA for a funding fee.

Types of properties eligible for VA

The types of properties eligible for VA financing mirror FHA programs for the most part:

* 1-4 unit single-family properties. Unlike FHA, the maximum mortgage amount is not increased for multiple unit properties.
* Properties located in planned unit developments (PUDs).
* Properties located in condominium developments.

Condominium developments have to be approved by VA and the guidelines are similar to those employed by FHA. The most pronounced exception is the fact that VA does not have a 51% owner-occupancy requirement for condominium projects and VA does not require environmental assessments for condominiums. In September of 2000, the VA lender handbook was updated to eliminate the requirement that planned unit developments need VA approval. When FHA updated its condominium requirements in 2009, VA stopped accepting projects with FHA approval.

VA appraisals traditionally are called *Certificates of Reasonable Value* (CRVs) and appraisals of new projects are called *Master Certificates of Reasonable Value* (MCRVs). In 2005, VA began accepting the use of conventional appraisal forms as revised by Fannie Mae/Freddie Mac and CRV began to be known as a *Notice of Value* (NOV). New homes must have plans and specifications approved by VA, however a small number of homes can be allowed on a *spot* basis with an approved homeowners warranty program. In these cases the appraisal would be ordered at what is called the *customer preference stage*. At this stage the home is completely finished, except for items the purchaser chooses: carpet, tile, appliances, etc. After these items are installed, a final inspection is ordered and performed by VA.

In 2006, VA released a simplification of the processing procedures for proposed construction in which the need for VA inspections was eliminated in most cases. Because values are good for one year from date of issuance, in May of 2009 VA stopped issuing MCRVs because of declining market conditions, a policy which expired January 1, 2013.

Under a program called *LAPP (Lender Appraisal Processing Program)*, the appraiser sends the appraisal directly to the lender to process. Under normal VA procedures, all appraisals are sent to the Property Valuation Section of VA and VA issues the appraisal, or CRV. The lender can issue its approval after receiving the appraisal if the lender is a VA Automatic lender.

Mortgage types offered under VA

*Fixed rates.* By far the most prevalent VA mortgages are 30 year fixed rates. Until November of 1992, VA set an interest rate ceiling that could be charged to the veteran for all VA mortgages except for refinances. The veteran was also not allowed to pay any discount points charged in connection with the mortgage. Under the Veterans Home Loan Program Amendments of 1992, this interest rate ceiling was lifted and veterans were permitted to pay discount points directly.[[9]](#footnote-9)

*Temporary buydowns.* Temporary buydowns of VA fixed rate mortgages have not been popular in the past few years. The reasons for this are:

* *Qualification*. VA does not allow qualification at the bought down rate unless it can be proven that the income will increase in the future. Cost of living increases are specifically excluded and the increase must be proven. VA will allow the lower payment to offset a debt payment that will be paid off in the near future.
* *Point premium.* Like FHA buydowns, Ginnie Mae treats buydowns differently for securitization purposes and this can result in a premium in addition to the actual cost of the buydown.

*VA ARMs.* Under the Veterans Home Loan Program Amendments of 1992, Congress authorized a test program to offer one-year adjustable rate mortgages that are identical to those offered under the FHA mortgage program (1% adjustment cap and 5% life cap with a “T” Bill index). The veteran is qualified at 1% over the initial interest rate. The authority expired in 1995 and was not renewed by Congress until December 2004. In December 2002, Congress authorized the creation of a new pilot program to test hybrid ARMs (such as a 3/1) that were similar in characteristics to the new FHA hybrid ARMs. In 2005, 5/1 adjustables were authorized at a higher annual cap of 2.0%, which is the same as the FHA caps for this hybrid adjustable.

*Energy efficient mortgages.* The 1992 Amendments also authorized the financing of improvements to properties to make the property energy efficient. From $3,000 to $6,000 (depending upon the degree of utility savings) can be added to the mortgage for these improvements for purchase and refinance transactions. This provision can be utilized even if the veteran is financing the maximum amount for which he/she is eligible.

Maximum VA mortgage amount

VA does not actually set a mortgage limit—it limits the amount of *guaranty* that can be extended for each mortgage. This guaranty allows for no-down-payment loans of up to the conforming limit ($510,400 for 2020). As the maximum conforming loan amount rises, so does the maximum VA mortgage amount. Conforming limits are 50% higher in high cost areas, ($765,600 for 2020) and these higher limits also apply to VA no-money down loans.

|  |
| --- |
| **A History of Conforming Mortgage Limits** |
|  | 1 Unit | 2 Units | 3 Units | 4 Units |
|  |  |  |  |  |
| 1993 | 203,150 | 259,850 | 314,100 | 390,400 |
| 1994 | 203,150 | 259,850 | 314,100 | 390,400 |
| 1995 | 203,150 | 259,850 | 314,100 | 390,400 |
| 1996 | 207,000 | 264,750 | 320,050 | 397,800 |
| 1997 | 214,600 | 274,550 | 331,850 | 412,850 |
| 1998 | 227,150 | 290,650 | 351,300 | 436,600 |
| 1999 | 240,000 | 307,100 | 371,200 | 461,350 |
| 2000 | 252,700 | 323,400 | 390,900 | 485,800 |
| 2001 | 275,000 | 351,950 | 425,400 | 528,700 |
| 2002 | 300,700 | 384,900 | 465,200 | 578,150 |
| 2003 | 322,700 | 413,100 | 499,300 | 620,500 |
| 2004 | 333,700 | 427,150 | 516,300 | 641,650 |
| 2005 | 359,650 | 460,400 | 556,500 | 691,600 |
| 2006 | 417,000 | 533,850 | 645,300 | 801,950 |
| 2007 2008 200920091200922017201712018201812019 | 417,000417,000417,000625,500729,750424,100636,150453,100679,650484,350 | 533,850533,850533,850800,775934,200543,000814,500580,150870,225620,200 | 6n45,300645,300645,300967,9501,129,250656,350984,525701,2501,051,875749,650 | 801,950801,950801,9501,202,9251,403,400815,6501,223,475871,4501,307,175931,600 |
| 20191 765,525 930,300 1,124,475 1,397,4002020 510,400 653,550 789,950 981,70020201  765,600 980,325 1,184,925 1,472,550*1: Standard high cost limits (same 2009-2016) 2: Economic Stimulus Act high cost limits  (from 2009 to 2011)****Table 2-10*** |
|  |

Above conforming limits, VA does not limit lenders from making loans higher than these limits, but a down payment of 25% would be required on the amount of financing which exceeds the limit. Not all lenders accept VA “Jumbo” mortgages. See Table 1 for current high cost area mortgage limits.

Effective January of 2020, VA lifted the VA loan limits for all loans for veterans with full eligibility. Therefore, they would not be constrained by the conforming loan limits (except for partial eligibility). It is too soon to tell in what form and with what restrictions these loans will be offered by lenders.

*Costs to obtain a VA mortgage*

*Down payment.* It is within the discussion of down payment that we must advance and define the concept of the words *guaranty*, *eligibility*, and *entitlement* that keep turning up within our exploration of VA mortgages. Basically, each veteran is *eligible* or *entitled* to have a certain portion of a VA mortgage *guaranteed* against default. Usually, 25% of the mortgage amount is guaranteed by VA. This guaranty serves as a substitute for cash equity in the eyes of the lender because the lender knows VA will send the equivalent in cash if the mortgage defaults. Therefore, the amount of guaranty will allow a maximum VA mortgage without a down payment by the Veteran.

Example:

If the Veteran has *eligibility* for a *$70,000 guaranty*,
the maximum VA mortgage without a down payment would be:

$70,000 x 4 = *$280,000*
(This means that VA will guaranty 25% of $280,000, or $70,000.)

How do we determine how much entitlement a veteran currently has? Basically, if the veteran never has used his/her VA eligibility in the past, the veteran would have a maximum entitlement of twenty-five percent of the maximum limit published by VA. If the veteran had a VA mortgage in the past and did not regain the used entitlement,[[10]](#footnote-10) the veteran would have lost a certain amount of guaranty. Congress has periodically increased the guaranty throughout the history of the VA mortgage program. The amount of increase would give the veteran who has already used all or most of his/her entitlement what is called a *partial entitlement*.

For example:

- If a veteran purchased a home in 1979 for *$100,000*, the veteran would have used *$25,000* in entitlement.

- In 1988 the entitlement was increased to *$36,000*, giving the veteran a partial entitlement of *$11,000*.

- In 1989 the entitlement was increased to *$46,000* (1994 to *$50,750*, and in 2001 to $60,000, but only for the purpose of purchasing a home with a sales price greater than *$144,000*). Therefore, the partial remains at *$11,000* for a sales price below *$144,000* and *$35,000* for the purchase of a home over *$144,000*.

- In 2005 the entitlement was increased to 25.0% of the conforming limit.

The veteran can purchase a second home under the VA mortgage program without disposing of the first home as long as the next purchase is also for an owner-occupied home (the first home would have to be converted to a rental property), and as long as the new home has at least 25% in guaranty by VA or cash down payment by the veteran. In the above example, the veteran has only a partial of $35,000 and can only purchase four times that amount with no money down. Therefore, the veteran would have to make a 25% down payment for any portion of the sales price above $140,000.

The formula for figuring the maximum mortgage amount with partial entitlement would be:

*Sales Price x 75% + Eligibility = Maximum Mortgage Amount*

$160,000 x 75% = $120,000 + $35,000 = $155,000 ($5,000 down payment)

The amount of entitlement is designated on a VA form called a *Certificate of Eligibility*, or *COE*. This form is obtained through each Regional VA Office and can be updated every time there is a change in entitlement.

*Funding fee.* Though the VA mortgage program is not financed through user paid insurance, the veteran must pay a *funding fee* to reimburse the VA for the cost of administering the program. Effective October 1, 1993 veterans using their VA eligibility for a second time must pay a higher fee. The cost of the funding fee stated as a percent of the mortgage amount effective October 1, 2004: VA allows the funding fee to be financed into the mortgage amount without affecting the amount of eligibility.

**Funding Fees**

 Active Military and Veterans

|  |  |  |
| --- | --- | --- |
| Down Payment | Funding Fee First-Time Use | Funding Fee Subsequent Use |
| 0->5.0% | 2.30% | 3.30% |
| 5.0-10% | 1.50% | 1.50% |
| >10% | 1.25% | 1.25% |
| IRRRL Refis | 0.50%  | 0.50% |
| Cash-Out Refis | 2.15% | 3.30% |
| Mobile Homes | 1.00% | 1.00% |
| Assumptions | 0.50% | 0.50% |

Table 9

As of 2020, Reservists and National Guardsman do not pay a higher fee.

Example:

 Sales Price: *$100,000*

 Mortgage Amount: *$100,000*

 Amount of Funding Fee: *2.30%,* or *$2,300*

 Mortgage Including Funding Fee: *$102,150*

Veterans receiving VA disability are eligible to have their funding fee waived by VA. In September of 2011, VA began including this exemption on the Certificate of Eligibility and lenders no longer have to send a *VA Verification of Benefits* to VA for the determination except on refinances or where the information on the COE is unclear.

*Non-allowable VA closing costs.* VA does not allow the veteran to pay miscellaneous fees above and beyond the loan origination fee. Therefore, on purchase transactions the tax service, lender inspection, and other fees will typically be paid by the seller. These fees cannot be charged on refinances.

The seller can pay all discount points, temporary buydown funds, closing costs, and prepaids associated with the transaction. With no down payment and the seller paying all closing costs, the veteran can literally move in with no cash utilized in the transaction. There is a limit of 4% of the sales price that the seller can *contribute* towards the borrower's costs in the transaction; however typical discount points and closing costs do not count towards the 4% limitation.

###

### VA qualification requirements

VA makes home buying more affordable and achievable for veterans in several ways:

* *Residual method.* VA is the only major mortgage source that continues to use the *residual method* of qualification as a primary method of qualification. The *residual method* figures qualification by subtracting all expected expenses from a veteran's income. If the *residual figure* is positive, the veteran qualifies. If the *residual figure* is negative, the veteran does not qualify. Generally, the residual method is a more liberal and realistic qualification standard than the widely utilized ratio method. A more in-depth discussion of this concept can be found in the *Qualifying For A Mortgage* section.
* *Higher ratios.* VA also applies a second qualification standard: a *debt ratio* of 41%. Generally, if the second ratio exceeds 41% the lender must have compensating factors to approve the loan. This would include recalculation of the residual method to determine if the residual remains positive after 20% is added to the family support category. With most conventional standards employing a 36% debt ratio, the second standard of VA qualification remains more liberal than comparable conventional mortgages.
* *Cash requirements.* The cash requirement for a VA mortgage is less than any other major mortgage source (keep in mind that lender requirements can be more stringent than VA):
* No down payment is required if there is full entitlement.
* The VA funding fee can always be financed (up to the high cost limit).
* The seller can pay for all closing costs and prepaids.
* There is no requirement for cash reserves after closing.
* The veteran can receive gift funds for any and all cash requirements.
* The veteran can borrow on unsecured terms for any cash requirements, except to pay above the appraised value of the property if the sales price exceeds the appraised value.

Not all qualification requirements for VA mortgages are less stringent than conventional mortgages. There are some standards that are very strict:

* *Co-borrower requirements.* Since the VA mortgage program is a benefit program for veterans, it is quite understandable that the participation of *non-veterans* is restricted. Non-owner occupant co-borrowers are strictly forbidden in the VA mortgage program. There are basically only two classes of owner-occupant co-borrowers that are allowed:
* The spouse of the veteran is an eligible co-borrower. In addition, if the spouse of the veteran is also an eligible veteran, either entitlement can be utilized to acquire the VA mortgage.
* Another eligible veteran. Two non-related veterans can purchase a home together if they both are going to live in the house. In this case, a portion of the entitlement will be utilized by both veterans. These mortgages must be approved directly by VA, even if the lender has VA automatic authority.
* Non-veterans (not a spouse). Though VA may approve a loan purchased with a non-veteran, these loans are not likely to be guaranteed in full and therefore not eligible to be purchased by Ginnie Mae. Because the loan cannot be sold, most lenders will not be able to make such a loan.
* *Secondary financing.* A second mortgage behind a VA first mortgage is not allowed to decrease the cash down payment required by the veteran (if there is one). For example, if the veteran has remaining eligibility of $15,000 and the sales price is $100,000:

 $100,000 x 75% = $75,000 + $15,000 = $90,000 maximum mortgage

 $100,000 - $90,000 = $10,000 minimum down payment

The VA mortgage is $90,000. The $10,000 must be in cash. A second trust is not allowed to “lower” the down payment.

 At times, lenders have offered VA “Jumbo” mortgages, which require a 25% down payment over the maximum allowable loan limit, utilizing a second mortgage. For example, if the maximum conforming loan amount is $500,000 in a high cost area and the sales price is $600,000, the lender might allow a first mortgage to $500,000 and a second mortgage for $75,000 with a $25,000 down payment. Or, as an alternative, the lender could offer a $575,000 VA “jumbo” loan.

|  |
| --- |
| **History of VA Entitlement** |
| $4,000………………………………….. | World War II |
| $7,500…………………….……………. | Increase 7/12/50 |
| $12,500………………………………… | Increase 5/7/68 |
| $25,000………………………………… | Increase 10/2/78 |
| $27,500………………………………… | Increase 10/1/80 |
| $36,000………………………………… | Increase 2/1/88 |
| $46,000………………………………… | Increase 12/18/89 |
| $50,750………………………………… | Increase 10/13/94\* |
| $60,000…………………………………$89,912…………………………………$104,250………………………………. | Increase 12/27/01\*Increase 01/01/05\*Increase 01/01/06\* |
| VA will currently guaranty: |  |
| * 50% of mortgages up to $45,000
* $22,500 maximum for mortgages over $45,000 and up to $56,250
* The lesser of $36,000 or 40% of the mortgage for mortgages of $56,250 up to $144,000
* 25% of the conforming limit on loans up to $417,000 or the limit in a high cost area published by VA.
* In 2020 VA eliminated the restriction to conforming loan limits for those with full eligibility.

\*The increases were originally effective only for purchases over $144,000. As of 10/16/2008 these include refinances as well**.**  |
| **Table 10** |

## *The residual method of qualification*

While the ratio method of qualification calculates a percentage of income that can be applied to the housing and debt payments of an applicant, the residual method of qualification actually attempts to more directly calculate whether the applicant can afford the monthly mortgage payment. We can think of the residual method of qualification as the *family budget method*. That is, we take the income and subtract all expenses including the mortgage payment. If there is a positive *residual*, the applicant qualifies. If there is a negative *residual*, the applicant does not qualify.

Almost everyone can relate to the calculation of a family budget: income minus expenses. Yet, the calculation of the residual method is much more tedious than the ratio method because of the number of expenses that must be subtracted from the income:

* Federal income taxes
* State income taxes
* Social Security
* Rental negative
* Child support
* Family Support
* Monthly debts
* Property taxes
* Utilities
* Housing maintenance
* Association fees
* Principal and interest

The cumbersome method of calculation may very well be a major reason why the majority of the industry has adopted the ratio method of qualification over the residual method. VA is the only major mortgage source continuing to rely on the residual method, though residual method continues to be an acceptable demonstration of affordability when a mortgage applicant needs to show compensating factors to exceed acceptable ratios on jumbo mortgages and to demonstrate affordability for first-time low-to-moderate income purchasers as well. FHA has specifically addressed the residual method of qualification as a compensating factor for higher ratios. Added

Monthly income: $10,000

Monthly debts: $2,000 (Alimony payment)

Monthly PITI: $2,500

Debt ratio: 45%

In the above case, the debt ratio is 45%, is much higher than the acceptable 43% for conventional ratios. From a residual point of view, however, it can be seen that the applicant has plenty of disposable income, especially because the alimony payment is tax deductible:

Monthly Income: $10,000

Taxes: (-) $ 2,000

Debts: (-) $ 2,000

PITI: (-) $ 2,500

Residual: $ 3,500 For utilities, maintenance, family support

**VA Family Support
Table of Residuals**

|  |  |  |  |
| --- | --- | --- | --- |
| **Family Size** | **Northeast** | **Midwest/South** | **West** |
| 1 | $390/$450 | $382/$441 | $425/$491 |
| 2 | $654/$755 | $641/$738 | $713/$823 |
| 3 | $788/$909 | $772/$889 | $859/$990 |
| 4 | $888/$1,025 | $868/$1,003 | $967/$1,117 |
| 5 | $921/$1,062 | $902/$1,039 | $1,004/$1,158 |

* First number is for loan amounts below $80,000.
* Add $75/$80 for each additional family member up to a family of 7.
* Northeast States: Connecticut, New Hampshire, Pennsylvania, Maine, New Jersey, Rhode Island, Massachusetts, New York, Vermont.
* West States: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.
* All other states are Midwest or Southern.
* Active duty servicemen or their families living close to a base and receiving benefits of such can reduce required residual by 5.0%.

**Table 11**

|  |  |
| --- | --- |
| **Residual Method Example****Residual method example assumptions****Assumptions:**Husband and WifeNo Children Property Taxes: $200 MonthlyHusband Income: $2,250 TaxableSpouse Income: $1,250 Taxable $840 Non-taxable[[11]](#footnote-11)Association Fees: $50 MonthlyHazard Insurance: $25 Monthly Interest Rate: 5.0% Mortgage Amount: $250,000Debts: $350 Car Loan $150 Personal Loan $250 Monthly Credit Cards |  Borrower Co-BorrowerMonthly gross income 2,250 \_ 1,250Federal Tax (-) 120 \_ 20State Tax (-) \_ \_ 0Social Security (-) \_ 172 \_ 96Retirement (-) \_\_\_\_\_\_\_0Child Care (-) \_ \_\_\_\_\_\_\_0Monthly Debts (-) 750 \_\_\_\_\_\_\_0Rental Negative (-) \_\_\_\_\_\_ \_0 Non-taxable Income (+) 840 Subtotal 1,208 1974Total 3,182Taxes & Insurance (-) 225Utilities (-) 215Maintenance (-) 50Association Fee (-) 50Family Support (-) 823Balance available for principal and interest (=) 1,813$250,000 at 5.0% (-) 1,343Positive Residual +476 |
| ***Monthly tax chart******Example*** |
| Notes:• Actual tax tables are located in the Appendices. In this case we would use the married table with one exemption for each borrower.**•** The State taxes are estimated at five percent of gross monthly income. This figure will change slightly from state to state. In addition, many states exempt income of the military from taxation.• Social Security taxes are 7.65% of all taxable income in this case.**•** Separate retirement may be paid by Federal, State and Local government employees. Military personnel do not contribute to their retirement plans.**•** Rental negative would be in the case of another property owned by the applicants, and rented out to others. VA requires a veteran to have experience as a landlord in order to count rental income: as well as three months of mortgage payments as cash reserves after closing. On a multiple unit property purchase, the veteran is required to have six months cash reserves after closing.• Monthly utilities are estimated at $1 per thousand plus $50 ($100,000 sales price would be $150 monthly).**•** Maintenance: we usually estimate $50 for maintenance except for condominiums because the condominium assessment would cover a certain amount of maintenance. In the case of condominiums we would use $25.**•** Family support is from a table issued by the VA (Table 10). The number used would depend upon the region of the country and the family size. In addition:– VA allows a 5% reduction in the required family support if the house is located near a military base and the veteran enjoys benefits from that base.– VA requires a 20% increase in family support if the debt ratio of the applicant(s) exceeds the required 41%. A positive residual with the 20% increase in family support is not mandatory, but is considered a significant compensating factor for anyone exceeding the 41% back ratio. **•** Hazard insurance is from assumptions above. A general estimate is $2.50 for each $1,000 of sales price. |

**VA Pre-Qualification — Residual**

 (B) (CB

Monthly Gross Income \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Federal Tax (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less State Tax (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Social Security (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Child Care (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Monthly Debts (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Rental Negative (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Add Non-taxable Income (+) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (+) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 Sub-Total \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Total \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Property Taxes (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Hazard Insurance (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Utilities (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Maintenance (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Association/Condo Fees (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Less Family Support (-) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Available for Principal & Interest**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Divide the principal & interest by interest

rate factor per $1,000 which is prevailing for divide by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (factor)

program desired at time of

pre-qualification = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Multiply answer by 1,000 to arrive at** x \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**maximum loan amount**

 =$ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ max loan

**To figure interest rate needed to qualify borrower when loan amount needed is known:**

Carry principal and interest down to right $ \_\_\_\_\_\_\_\_\_\_\_

Divide by loan amount, dropping the last three numbers (ex: $70,000 = 70) ÷ \_\_\_\_\_\_\_\_\_\_\_

Result is interest rate factor (Table on inside cover)

|  |
| --- |
| **Purchaser Qualification Sheet** **Date** **Purchaser Down payment & closing costs** **Property Liquid assets available**  **RATIO RESIDUAL**(B) (C)A. **Monthly gross income** **(A)** **Monthly gross income** B. **Housing expense** Federal Tax (-)  Principal and Interest State Tax (-)  Taxes and Insurance Social Security (-)  MI Retirement (-)  Association Fee Child Care (-)  PI for second Trust Monthly Debts (-)  **Total**  **(B)** Rental Negative (-) C. **Debt service** Non-taxable Income (+)  Housing Expense **(B)** **Subtotal**  Monthly Debt Payments Total  Rental Negatives Taxes & Insurance (-)  **Total** **(C)** Utilities (-) **Housing Ratio:** Maintenance (-)  **(B)** divided by **(A)** % Association Fee (-) **Debt Ratio:** Family Support (-)  **(C)** divided by **(A)** % **Balance available for principal** **and interest** NOTES:1. *Income* must be averaged if variable (interest, commission, bonus, overtime, part-time). For self-employed use average of *Net* income for 2 years. Do not include expense accounts.2. *Debts:* Monthly payments with more than 10 months remaining. Child support and/or alimony payments are monthly debts (child care only for VA). For credit cards use 5% of the outstanding balance or minimum of $10. For FHA, alimony can be taken as a reduction in income.3. *Rental negative*: A vacancy factor of 25% may be used to lower monthly rental income before a negative is calculated ($1,000 income with 25% factor is $750).4. *PI* for a second trust is in the first ratio only if secured on property being purchased.5. *Association fee* is included in first ratio in full. Condo fees that include utilities are sometimes reduced 30-40%. Condo fee in VA qualifying will reduce estimates for maintenance, insurance, and sometimes utilities.6. *Social security* for 2020 is 6.2% and 12.4% for self-employed on a maximum base of $137,000. Medicare portion only (1.45%) is collected above that amount.7. *Federal retirement* is 8.5% with no maximum.8. *State income tax* is not paid by many active military.9. *Utilities* is $1 per 1,000 of sales price + $50.10. *Maintenance:* $50 estimate; $25 for condominiums.11. *Insurance:* Estimate $2.50 per 1,000 of sales price for annual premium.12. Mortgage Insurance (MI) estimate .96% monthly for 95+% LTV, .78% monthly for 90% LTV. |

*VA Refinances*

* VA allows a regular refinance loan (with appraisal and using new eligibility) up to 100%

 (including cash-out). ***Note: not all lenders offer 100% cash out.***

* IRRRL can include up to $6,000 in energy efficiency improvements.
* IRRRL can finance up to two discount points, normal and customary closing costs and the

 funding fee.

* IRRRL the veteran can certify that they previously occupied the property.
* The IRRRL must lower the payment on the new loan except if the existing loan is an adjustable

rate mortgage, the new loan term is shorter or energy efficiency improvements are added. If the payment increases by 20% or more, the veteran must be re-qualified.

* Although VA does not require an appraisal or credit report for an IRRRL, the lender may

require and include this cost in the loan.

* If the loan is more than 30 days past due, late charges can be financed in the new loan (but

 don’t expect the lender to approve).

* IRRRL cannot result in cash back except for something such as a refund of escrow balance on

the old loan.

* If you assume a VA loan, you cannot do an IRRRL unless you have substituted your

entitlement on the mortgage. The only exception is for a spouse when the veteran has died.

* In late 2018, VA published additional rules to be effective in early 2019.  These rules

included a net tangible benefit requirement for non-IRRRL loans and extended the six months seasoning requirement for any refinance of a VA loan, including cash-out.  The 100% LTV requirement was extended to IRRRL loans as well.

***VA Underwriting Idiosyncrasies***

* Veteran cannot pay certain fees such as real estate commissions, attorney’s fees charged by the lender, loan application fees, loan processing fees, loan broker fees, tax service fees, prepayment penalty fees and lender inspection fees on new construction. VA is considering revising their fee policy.
* The seller can pay reasonable and customary closing costs not to include the funding fee, prepayment of taxes and insurance, fees for temporary buydowns and credit balances for judgments. These fees are considered concessions and cannot exceed 4.0% of the sales price.
* If the lender collects a 1.0% flat fee at application, it must be refunded if the loan does not

 close.

* Vets on service-related disability are exempt from paying the funding fee.
* The use of a power of attorney by the veteran must have written consent with regard to the

 specifics of the transaction.

* VA no longer requires connection to public water and sewer when available.
* The lender can review an appraisal under the Lender Appraisal Processing Program (LAPP).

***VA Disclosures***

*Note that some forms included may no longer be in use. VA has retired/combined certain forms we include because certain lenders may still be using them.*

* *Addendum to the Uniform Residential Loan Application*. (*URAL addendum*). This addendum includes a variety of certifications by the lender and the applicant. It also includes the *Privacy Act Notice*.
* *Interest Rate and Discount Disclosure Statement*. States that the rate and points are not set by VA and are negotiable with the lender, Retired.
* *Verification of VA Benefit—Related Indebtedness (VA Indebtedness Letter).* Enables the lender to verify from VA that the applicant/veteran does not have any unpaid or unscheduled indebtedness to the agency. Also gives VA an opportunity to indicate that the applicant/veteran is exempt from the funding fee due to receipt of VA disability. This exemption is also now listed on the *Certificate of Eligibillty.*
* *Federal Collection Policy Notice*. Informs the applicant/veteran of actions that the government can take if scheduled payments are not made. This form can be replaced by the URAL addendum.
* For homes built before 1978—*Notice*  *of Possible Lead Based Paint* and/or *Lead Based Paint Hazards (VA Form 26-6705e)* which includes a 10 day opportunity to conduct an evaluation.
* *Assumption of VA Guaranteed Mortgages*. Gives VA’s policy with regard to assumption of mortgages made after March 1, 1988. This includes credit approval, payment of one-half of one point VA funding fee, lender processing charges, and assumption of liability by the person assuming the mortgage.
* *Counseling Checklist for Military Homebuyers*. States that failure of a borrower on active duty to disclose that he/she expects to leave the area within 12 months may constitute bad faith and that VA may require the borrower to repay VA for any losses due to foreclosure if such bad faith is demonstrated.
* A Debt Questionnaire. Asks the veteran of past foreclosure or judgment problems. Also asks the veteran to disclose present delinquencies or defaults on Federal obligations. This form can be replaced by the Uniform Residential Loan Application (URLA).
* VA Rights of Loan Borrower. Lists the rights of a loan borrower including policies regarding assumptions, prepayment and late charges.
* Certificate of Eligibility. Lists the amount of the present entitlement for the Veteran. Veteran will need a DD-214 (Statement of Service) to obtain. Currently lists the exemption for a funding fee.

Section Three - FHA/VA Marketing Letters

*# 62 Builder Project Approvals*

April 9, 2020

Mr. Builder Guy

144 Commission Lane

I Want Your Project, USA 3333

***Leave your project approvals to us!***

Dear Mr. Builder:

As a recipient of the top ten metropolitan builder award from the Johnson Times, it is apparent that Johnson Builders has built quite a reputation for quality and value within the new home community. We would like to congratulate you on your leadership position within our region.

*Origination Professional* has been proud to do business with the top builders within the Johnson area—including Dooby Homes, Scooby Homes, and Tweety Homes—

*"Origination Professional has been our number one lender for over ten years. Consistently,*

*they have been an asset to our organization." Tim Jones, Tweety Homes*

The reason we are so popular with area builders and their buyers is because we specialize in new home lending and have become a partner with our builder-clients. We find one of the most valuable assets we can bring to our builders is ***our project approval expertise***.

* Obtaining FHA, VA, Fannie Mae and Freddie Mac project approvals can be expensive and confusing at best for those who do not have the staff or expertise.
* We have the experience of obtaining approvals for many area condominium projects and planned unit developments. These projects present the most challenging approval scenarios.
* The cost of these expert services? ***Absolutely nothing to the builder!*** Our costs are reimbursed through appraisal fees on the individual loans within the project.

Of course, after we help obtain project approval, *Origination Professional* will provide our customary wide-ranging menu of mortgage alternatives for your customers. These include products designed to help you sell more—including long-term locks, no-money down mortgages and mortgages for those with blemished credit. Many builders with “in-house” lenders refer deals to us that they cannot finance on a regular basis.

I would like to sit down with you in the near future and go over your project approval needs. I will be calling in the next few days to set up an appointment and look forward to seeing you shortly.

Sincerely,

Sara Loan Broker

Senior Mortgage Broker

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*# 20 First Time Buyer FHA Purchase*

April 9, 2020

Mr. Great Lead

144 Commission Lane

I Want Your Loan, USA 3333

***Special government program helps***

***renters become homeowners!***

Dear Mr. Lead:

Many renters do not understand that the government will help them purchase their first home. The government does not lend money—mortgage companies such as *Origination Professional* lend the money. But because of special regulations from *the* ***Federal Housing Administration (FHA)*** we are able to approve buyers that would ordinarily not be able to purchase a home. This special ***FHA*** program helps by—

* *Allowing for the least amount of cash possible*—potential buyers can receive gifts, grants from non-profit institutions, or borrow the small down payments require.
* *Qualification guidelines are quite liberal* with no minimum credit scores and relatives can help you qualify without living in the home.
* *All potential buyers are eligible*—even those without green cards working legally in the United States.

***Why not say goodbye to your landlord?***

With the government helping, the time to purchase is now when interest rates are low. When you own, there is no landlord to call with rent increases*.* *Origination Professional* has helped thousands of renters become proud homeowners—

*“Sara, thanks so much for helping us purchase our new home. We never thought*

*owning was possible but you showed us how easy it can be…” Mary Jane Smith*

***So what are you waiting for? Another rent increase?*** Let *Origination Professional* pre-approve an FHA mortgage for you so that you can find the home of your dreams. ***There is*** ***no cost and no obligation***. Call now at 1/800-222-2222 or email us at—sloanbroker@oririg.com. *What do you have to lose—besides your landlord?*

Sincerely,

Sara Loan Broker

 Senior Mortgage Broker

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*# 17 First Time Buyer Rent Increase*

April 9, 2020

Mr. Great Lead

144 Commission Lane

I Want Your Loan, USA 3333

***How many times will your landlord raise your rent***

***before you decide ENOUGH is ENOUGH?***

Dear Mr. Lead:

As a resident of *Rent-In-Arms Apartments*, you probably have received notice that your rent payment is going up—***again***. Rents in the metropolitan area have been rising an average of 8.0% per year for the past five years. If these increases continue, don’t be surprised by the following:

* Those currently paying $800 per month in rent will be paying ***$1,175*** in five short years.
* Those currently paying $1,000 per month in rent will be paying ***$1,469*** in five short years.
* Your rent will ***double*** in just nine years.

***Are you ready to pay twice your current rent?***

There is only one way to stop the madness. The ***time to purchase is now*** when interest rates are low. When you own there is no landlord to call with rent increases*. Origination Professional* has special programs for first time homebuyers—some of which are sponsored by the Federal Government. Our special programs require ***little or no down payment*** and will consider those with ***blemished credit histories***.

***So what are you waiting for?*** *Origination Professional* has helped thousands of renters become proud homeowners—

*“Sara, thanks so much for helping us purchase our new home. We never thought*

*owning was possible, but you showed us how easy it can be…” Mary Jane Smith*

Let *Origination Professional* pre-approve a mortgage for you so that you can find the home of your dreams. ***There is*** ***no cost and no obligation***. Call now at 1/800-222-2222 or email us at—sloanbroker@oririg.com. *What do you have to lose—besides your landlord?*

Sincerely,

Sara Loan Broker

 Senior Mortgage Broker

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*#47 Realtor First Time Homebuyer Seminar*

April 9, 2020

Mr. Great Realtor

144 Commission Lane

I Want Your Loan, USA 3333

***Reach out to develop business…***

Dear Mr. Lead:

Recent census figures have confirmed that immigration growth is definitely fueling our latest real estate boom. It is not surprising that Chicago Title’s Annual Housing Survey has consistently shown that almost ***50% of home purchasers in the United States are first time buyers***. This is much too important a market for any real estate professional to ignore.

The buyers are out there. We need to reach them with strong marketing efforts designed to educate prospects as to how to purchase. This is why *Origination Professional* has created our ***First Time Homebuyer Series***. This seminar is designed to demonstrate why a renter should purchase and how to make the process easier:

* The seminar features the three economic reasons for homeownership—investment, tax benefits and inflation protection.
* The seminar covers the toughest financing situations—cash shortages, credit problems and income instability. It also covers the number one government-sponsored loan program for first time buyers in the United States—FHA.mortgages.
* The seminar allows participants to begin the pre-approval process so they can get started.

A robust marketing plan is essential for a successful homebuyer seminar. To this end, we have also developed marketing materials to promote the seminar—as well as putting together a stable of synergy partners who will help market the event. These partners include a financial planner, CPA, settlement company and insurance agency. We have also had a representative from the local housing agency appear previously with much success.

As an integral part of our business plan, it is important for *Origination Professional* to deliver these seminars with our closest business partners. This is why we are inviting you to take part in the planning of this event. Call me at 1/800-222-2222 or email me at sloanbroker@oririg.com and we can get started.

Sincerely,

Sara Loan Broker

Senior Mortgage Broker

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# 07 Refinance FHA/VA Streamline

April 9, 2020

Mr. Great Lead

144 Commission Lane

I Want Your Loan, USA 3333

***Attention homeowners with***

***FHA and VA mortgages…***

*Origination Professional* announces participation in a special ***streamline refinance program*** with specific benefits for those who presently have mortgages originated under Federal Housing Administration (FHA) or Veterans Administration (VA) guidelines.

This unique government program allows you to achieve a lower rate and payment on your mortgage with the following special benefits:

* You do not have to ***qualify***for the new mortgage—there is no verification of your present job or income;
* An ***appraisal*** of your property is not necessary—saving hundreds of dollars in costs;
* Your ***credit*** history is not an obstacle as long as you are current on your present mortgage; and
* You do not have to ***reside*** in the home that you are refinancing and you still get the low rates offered to those who are owner-occupants.

Sound too good to be true? This ***streamline refinance program*** is a special government program and it is available only to those who presently have FHA and VA mortgages. It is set up to enable you to take advantage of today’s *low interest rates* with as little paperwork and as little cost as possible. The only way you could lose is by not taking action!

*Origination Professional* has recently refinanced over 300 million dollars in mortgages and I personally have guided over a thousand satisfied customers such as Mary Jane Smith—

*“Sara, thanks so much for guiding us through the refinance process. My new*

*mortgage saves us over $400 each month and now we have gone from a monthly budget*

*shortfall to saving money every month. It was so important to us to have someone*

*who helped us understand the choices and process. Thanks again…” Mary Jane Smith*

I will review your current mortgage situation—at ***no cost and no obligation***—and let you know if you qualify for the special government streamline refinance program. Call now while rates are low at 1-800-222-2222 or send an email to sloanbroker@oririg.com and we can get the process started.

Sincerely,

Sara Loan Broker

 Senior Mortgage Broker

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1. A *rate reduction* refinance transaction is a refinance of only the existing mortgage balance and allows an increase of the new mortgage amount over the existing mortgage balance only to finance, or *roll in,* the closing costs of the refinance transaction. The term “LTV” refers to the loan amount divided by the value of the property. The term “CLTV” refers to the loan amount of a first and second mortgage divided by the value of the property. In other words, a 95% LTV is the equivalent of a 5% down payment. [↑](#footnote-ref-1)
2. The term *escrow* refers to holding money aside in a third party account. [↑](#footnote-ref-2)
3. The refund of unused MIP must be differentiated from a refund of *distributive shares*. In the latter case, all FHA mortgages of a certain time period are put into *pools* by FHA. If there is residual money that remains at the end of the life of the pool, the money must be refunded to the borrowers. FHA discontinued the refund of distributive shares several years ago. [↑](#footnote-ref-3)
4. 15 Days prepaid interest must be made a part of the required cash for qualification purposes. In other words, the lender must assume that the closing will take place in the middle part of the month. [↑](#footnote-ref-4)
5. They are therefore referred to as non-owner occupant co-borrowers. [↑](#footnote-ref-5)
6. A green card is a document that makes a non-citizen residing in the United States a resident alien, or one who can reside in the United States. [↑](#footnote-ref-6)
7. Those eligible under this provision are subject to a higher funding fee. [↑](#footnote-ref-7)
8. Requires that the new payment be lower. The veteran can move to a 15-year mortgage which increases payments under this refinance program. A veteran may refinance out of an ARM. Even if the new payment is higher, the lender must certify that the veteran is able to make the new payment in cases where the PITI is increased by 20% or more. [↑](#footnote-ref-8)
9. Under the rules implementing this legislation, veterans were not allowed to roll in the cost of discount points in VA refinance transactions. This rule has since been rescinded. [↑](#footnote-ref-9)
10. A veteran regains used entitlement in one of two ways. The most common method is reinstatement, which means that the property is sold and the mortgage is paid off. In October 1994,Public Law 103-446 was passed which allowed a one-time only restoration for a veteran whose loan has been paid in full but had not disposed of the property. The second method is substitution of eligibility, which means that the home is sold and the VA mortgage is assumed by another veteran who substitutes his/her eligibility of an equal amount during the process of assuming the mortgage. In either case, if the veteran is selling his/her home and purchasing another, back-to-back settlements are not usually possible because the COE must be updated. In a back-to-back settlement, the home seller leaves one settlement table to go to the next settlement as the purchaser of another home on the same day. [↑](#footnote-ref-10)
11. Husband is active military and in addition to taxable base income he receives variable housing allowances, or VHA, Basic Allowance for Subsistence, or BAS, and Basic Allowance for Quarters, or BAQ, each of which is not taxable and may be “grossed up” in the calculation of ratios. [↑](#footnote-ref-11)