

# Trust One Mortgage – 400a FHA Series

## Product Type & Program Numbers:

**FHA programs: 203(b), 1-4 unit family; 234(c), Condo unit; HUD REO**

- 400a – 30-year Fixed Rate FHA
- 415a – 15-year Fixed Rate FHA
- 450a – 30-Year 5/1 FHA ARM
- 400Ha – 30-year Fixed Rate FHA High Balance
- 400aS - 30-year Fixed Rate FHA Streamline
- 415aS – 15-year Fixed Rate FHA Streamline
- 450Ha – 30-Year 5/1 FHA ARM High Balance

**UNDERWRITING CRITERIA:** All loans must be run through DU with Approve/Eligible results, no exceptions. **Manual underwriting not permitted.** For loans underwritten in DU, findings of **Approve/Ineligible** for the loan amount are acceptable if the reason for the ineligibility is resolved in compliance with FHA underwriting requirements. The lender must document the circumstances in the remarks section of the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). Circumstances which require a downgrade of any AUS Accept received: 1. Disparities in assets, including bank statements that indicate multiple Non-Sufficient Funds (NSF) charges; 2. Failure to meet conditions of an AUS Accept, such as the following: The documentation requirement is for 2 years of W-2s. However, this documentation cannot be provided because the borrower's total employment history is only 16 months, and the remainder of the 2 years is higher education.

### Maximum LTV

#### For Case Number Assignments on or before 12/31/2008

Maximum LTV Factors	≤ \$50K	> \$50K - \$125K	> \$125K
Low Closing Costs	98.75%	97.65%	97.15%
High Closing Costs	98.75%	97.75%	97.75%

**Low Closing Cost states** (Closing costs at or below 2.1% of sales price): AZ, CA, CO, ID, IL, IN, NM, NV, OR, UT, WA, WI, & WY.

**High Closing Cost states** (Closing costs above 2.1% of sales price): AL, AK, AR, CT, DC, DE, GA, HI, IA, KS, KY, LA, MA, MD, ME, MI, MO, MN, MS, MT, NC, ND, NE, NH, NJ, NY, OH, OK, PA, RI, SC, SD, TN, TX, VT, VA, WV

#### For Case Number Assignments on or after 01/01/2009

Purchase	Rate & Term Refi	Cash Out Refi
96.50%	97.75%	85%*

Streamline Refinance with appraisal allows 97.75% LTV max.

\*Cash out refis > 85% - 95% allowed with case number assignments prior to 4/01/09.

### FHA Mortgage Limits

Region	1 unit	2 units	3 units	4 units
Minimum (Floor)	\$271,050	\$347,000	\$419,400	\$521,250
Maximum (Ceiling)	\$729,750	\$934,200	\$1,129,250	\$1,403,400
Alaska and Hawaii	\$1,094,625	\$1,401,300	\$1,693,875	\$2,105,100

1-4 unit properties located in Investor-designated or appraiser-identified soft markets with loan amounts > \$417,000 and LTVs ≥ 95% require a second appraisal.

Loan limits vary by county. To look up FHA mortgage limits for all areas go to: <https://entp.hud.gov/idapp/html/hicostlook.cfm>, or see ARRA 2010 FHA Loan Limits in Chapter 18 or on the Trust One website.

➤ **Cash Out Refinance:** Effective for case numbers assigned on or after 04/01/09, the maximum LTV on FHA cash-out refinances is limited to 85%. Additional eligibility guidelines can be found in the **REFINANCE** section of this guide.

➤ **MAXIMUM LOAN LIMITS:** If the TOTAL LOAN AMOUNT is > \$417,000, the loan is considered a High Balance loan (program 400Ha), even if the base loan amount is below \$417,000.

## ADJUSTABLE LOAN FEATURES:

- 5/1 fixed-period term: First adjustment is 60–66 months after the first payment date.
- Interest rate adjustment: 1% per year up or down.
- Index: Weekly average on U.S. Treasury securities adjusted to a constant maturity of one year.
- Margin: See Rate Sheet.
- Life floor: 5% below the start rate, but never lower than the margin.
- Life cap: 5% above start rate.
- Payment adjustment date: First adjustment is the first of the month following the interest rate adjustment and every 12 months thereafter.
- Conversion options are not allowed.

# Trust One Mortgage – 400a FHA Series

**APPRAISAL:** Effective for all FHA case numbers assigned on or after 2/15/2010, Trust One is implementing the requirement of using an AMC to order FHA appraisals. Trust One is requiring all appraisals to be ordered on-line through, **Collateral Appraisal Management, LLC**, 108 Pacifica, Ste. 290, Irvine, CA 92618; www.CAManagement.net; Office: (949) 453-8284; Fax: (949)453-0035. All appraisals must be completed by HUD approved appraisers and use the following forms: Statement of Limiting Conditions; Appraiser's Certification; Market Conditions Addendum. The March 2009 version of the Fannie Mae/Freddie Mac form 1004MC, "Market Conditions Addendum to the Appraisal Report" must be included with all FHA (including rural housing) appraisals. State-certified appraisers must be used for FHA-insured mortgages. The appraiser assignment field within the Case Number Assignment screen in FHA Connection must be input with an appraiser who is listed as either certified residential or certified general on the FHA Appraiser Roster for the state in which the property is located. Effective for all case numbers assigned on or after January 1, 2010, the validity period for all appraisals on existing and proposed and under construction properties will be 120 days. Effective for FHA Case Numbers assigned on and after January 1, 2010, are the New Appraiser Independence and other requirements. Trust One must become familiar with HUD's Mortgage Letters #2009-28, #2009-29 and #2009-30 setting forth additional requirements around appraisals, among others: "To ensure appraiser independence, FHA-approved lenders are now prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan."

➤ **Appraisal Portability:** As announced in HUD Mortgage Letter 2009-29, for transactions where a borrower has switched lenders, the first lender must transfer the case to the second lender, including the appraisal report. FHA recognizes that the second lender may need to order a new appraisal, but this is allowed only under limited circumstances: The DE underwriter for the second lender found material defects with the original appraisal; The original appraiser is on the second lender's exclusionary list; The first lender failed to provide a copy of the appraisal in a timely manner, which causes potential harm to the borrower for events outside of the borrower's control. The events include rate lock expiration, purchase contract deadlines, and foreclosure proceedings.

➤ **Appraisal Update and/or Completion Report:** Effective for FHA Case numbers assigned on or after 2/15/2010, The Federal Housing Administration (FHA) is adopting the Appraisal Update and/or Completion Report, Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005.

- **Part A - When to Use the Appraisal Update Report:** To extend the validity period of an existing appraisal that is due to expire and when lender does not want to order a new appraisal report; or, to extend the validity period of an existing appraisal for new construction that is incomplete. **When the Appraisal Update Report May Not be Used:** The property has declined in value; or, the building improvements that contribute value to the property cannot be observed from the street or a public way; or, the exterior inspection of the property reveals deficiencies or other significant changes that did not exist as of the effective date of the appraisal report being updated.
- **Part B: When to Use the Completion Report:** To report the completion of a repair and/or the satisfaction of requirements and conditions noted in the original appraisal report referenced in the header of the Summary Appraisal Update and/or Completion Report. **When the Completion Report May Not be Used:** The Completion Report may not be used in lieu of form HUD-92051, Compliance Inspection Report, for new construction and manufactured housing.

Refer to MORTGAGEE LETTER 2009-51 for further details.

➤ **Declining Markets Appraisal Reporting Requirements:** HUD requires an appraiser to provide summary comments and support for all conclusions relating to the trend of the current market. In a declining market, an appraiser must: Include a minimum of two active listing or pending sales on the appraisal form (in addition to the three settled sales). Include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal; otherwise, a detailed explanation is required why the sales could not be provided. Ensure active listings and pending sales are market tested and have reasonable market exposure to avoid the use of over-priced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood. Adjust active listings to reflect list to sale price ratios for the market. Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios. Include the original list price, any revised list prices, and total days on the market. Reconcile the adjusted values of active listing or pending sales with the adjusted values of the settled sales provided. Include an absorption rate analysis.

➤ **Streamline loan without an appraisal:** Hazard Insurance coverage requirements are as follows: Loan Amount, OR Coverage for 'cost to rebuild' based on information on appraisal, OR Letter from insurance company that coverage provided will completely rebuild structure.

## **ASSETS/FUNDS TO CLOSE/DOCUMENTATION:**

➤ **Income and Employment History:** A completed and signed 4506-T form with acceptable results is required from all borrowers at application and closing regardless of AUS findings. Both 4506-Ts must be provided in the loan file delivered for purchase. The 4506-T signed at application and closing must include authorization for transcripts for the most recent two years. It is highly recommended that IRS transcripts be obtained prior to closing, to validate the income documentation used to underwrite the loan, and this practice will be required in the future. Exception: Non-Credit Qualifying FHA Streamline Refinances. Files are required to include IRS transcripts dated prior to the closing date. In all instances, the transcript requirements apply to borrower personal returns (1040s). Exception: Non-Credit Qualifying FHA Streamline Refinances. IRS form 4506-T is valid for 120 days from the signature date.

- **Salaried and Hourly Wages:** Full documentation requires verification of employment (VOE) covering the most recent two-year history, and most recent paystub reflecting the borrower's name, Social Security number, and year-to-date gross earnings. Alternative documentation requires paystubs and wage and tax statements (W2s) (in lieu of the VOE), verbal verification of employment, and cancelled checks (in lieu of the VOM or VOR), and bank statements or year-end statements. *For loan applications dated on or after September 1, 2009:* Verbal VOE requirements for hourly, salary and commission income are: Trust One must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 days prior to the closing date. Trust One must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the Internet, or directory assistance, or by contacting the applicable licensing bureau. If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification for Trust One. If the verbal verification is obtained from a third party vendor, the 10 day timeframe is measured from the date of Trust One's request to the vendor, not the date the

## Trust One Mortgage – 400a FHA Series

information was updated in the vendor's database. However, the information must have been updated within the past 35 days. Closing date is defined as the date the note is signed by the borrower(s). Exception: Non-Credit Qualifying FHA Streamline Refinance.

- **Self Employed:** A borrower with a 25% or greater ownership interest in a business is considered self-employed for underwriting purposes.  
**Minimum Length of Self-Employment:** Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Self employment between one and two years can be considered if the self-employed borrower has at least two years previous successful employment, or a combination of one year of employment and formal education or training in that or a related occupation to be eligible. The income from borrowers who have been self-employed less than one year may not be considered as effective income. For loan applications date on or after September 1, 2009: Verbal VOE requirements for self-employed income are: Trust One must verify the existence of the borrower's business within 30 days prior to the closing date from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible, and by verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance. If the contact is made verbally, the lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information. Closing date is defined as the date the note is signed by the borrower(s). Exception: Non-Credit Qualifying FHA Streamline Refinance.
- **Retirement Income:** Actual retirement requires a retirement benefit letter from employer, current copy of retirement check, and a 1099 or tax returns for the previous 2 years. Pending retirement requires full or alternative documentation requirements and a letter from the current employer, pension fund or social security, documenting retirement benefits, start date and amount of benefits to be paid monthly.
- **Social Security:** Requires Social Security Award Letter, or Bank statements for the last 12 months reflecting a consistent deposit pattern.
- **Alimony, Child Support, or Maintenance:** The borrower must provide a copy of one of the following: The divorce decree, recorded and signed, legal separation agreement, or voluntary payment agreement and evidence that payments have been received during the last 12 months. Acceptable evidence of regularity of payments includes: canceled checks, deposit slips, tax returns for alimony, or court records, etc. Periods less than twelve months may be acceptable, provided the payor's ability and willingness to make timely payments is adequately documented.
- **Borrower's Minimum Cash Investment:** Effective with new case number assignments on or after January 1, 2009, the minimum down payment requirement on purchase transactions increases to 3.5% (from 3%) of the lesser of the appraised value or sales price. This amount is in addition to any borrower closing costs.
- **Closing Costs:** Trust One may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage. These fees may not be used to meet the borrower's minimum investment requirement. Borrowers may not pay a tax service fee, and all other fees must be fair and reasonable. Aggregate charges may not violate FHA's tiered pricing rules. If you have questions about closing costs, contact your local FHA Homeownership Center (HOC).
- **Documents:** Effective January 2, 2010, per HUD requirement, case numbers must be evidenced on all Security Instruments (SI), collateral documents, and applicable riders. HUD requires the fixed-length case number be stated on the **first page** of the Security Instrument (SI), any collateral document, or applicable Rider. If the Note includes the case number or a place for the case number, the number must be entered as a complete and accurate fixed-length number as applicable by loan type. Trust One should not include the Section of the Act (SOA) number (most notably 203(b)) as part of the case number on the Note and SI. The leading zeros in each case number are not required. Case numbers can be obtained from FHA Connection. Documents do not need to be redrawn to correct the case number. The borrower does not have to initial changes to the case number. The lender may draw a line through the incorrect number and write in the correct number and provide the borrower a copy of the documents containing the correct case number. Trust One corrections to be initialed by Trust One. In addition to the note, security instruments and applicable riders, a case number is also required on the following documents: HUD Form 92900-LT (formally Mortgage Credit Analysis Worksheet), Appraisal.
- **First Time Homebuyer Tax Credits:** With regards to HUD Mortgagee Letter 2009-15, where ARRA provides for as much as an \$8,000 tax credit to qualified first-time homebuyers, and FHA in support of this initiative allows the tax credit to be used for downpayment, this tax credit **IS NOT ELIGIBLE** for use as downpayment on the 400a series of programs.
- **Gift Funds:** An outright gift of the cash investment is acceptable if the donor is: A relative of the borrower; The borrower's employer or labor union; A charitable organization; A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers; A close friend with a clearly defined interest in the borrower. A gift from any other source is considered an inducement to purchase and requires a reduction to the sales price. Donors may borrow gift funds from an acceptable source, not from a party to the loan transaction including the mortgage lender. Except for eligible donors described above, the donor of the gift may not be a person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them. Cash-on-hand is not an acceptable source of donor gift funds. The lender must document the transfer of the funds from the donor to the homebuyer by obtaining: A copy of the canceled check or withdrawal document showing the withdrawal is from the donor's personal account, and the homebuyer's deposit slip or bank statement showing the deposit. If the transfer of the gift funds is by certified check made on the donor's account the lender must obtain a: Bank statement showing the withdrawal from the donor's personal account, and Copy of the certified check. If the donor purchased a cashier's check, money order, official check, or any other type of bank check as a means of transferring the gift funds: The donor must provide a withdrawal document, or Canceled check for the amount of the gift showing the funds came from the donor's personal account.
- **HUDI:** A final HUD-1 Settlement Statement (or HUD-1A if applicable), or other closing statement evidencing all settlement costs paid by the borrower and seller, is required to be executed by the borrower and seller (if applicable) and be provided in the loan file delivered for purchase.
  - **Escrow States:** In escrow states where a final HUD-1 is not available at closing, an estimated HUD-1 or closing (escrow) instructions should be presented to the borrower and property seller (if applicable) to sign. The document must evidence final fees (with fee name and corresponding fee amounts on each line). Fees on the final HUD-1 issued after settlement should not have any fee changes to those fees. Borrower and property seller (if applicable) signatures may be provided on separate copies of the eligible documents. The estimated HUD-1 or closing (escrow) instructions signed by the borrower and property seller (if applicable) at closing in addition to the certified final HUD-1 from the closing agent must be included in the loan package. If there is a change in fees after the signing by the borrower and property seller (if applicable) at closing, only the parties affected by the fee changes are required to re-sign the final HUD-1.

# Trust One Mortgage – 400a FHA Series

- **Non-Escrow States:** In non-escrow states, a final HUD is still required to be signed by the borrower and property seller (if applicable) and submitted with the loan file.
- **Mortgage Broker Fee Agreement:** Effective with deliveries dated on or after July 1, 2009, a completed *Mortgage Broker Fee Agreement* form will be a required document in the loan package for broker originated loans. Use this form to fully disclose fees paid to the mortgage broker by the borrower and lender in connection with the loan. This form is available to underwriters to provide to brokers in Data Trac under REPORTS, UND, #245. It is required in the initial disclosure set, plus it must be updated each time broker revenue amount increases. A fully executed copy that will match docs must be there when docs are ordered.
- **Premium Pricing:** May be used to pay normal closing costs and prepaid expenses, including accrued interest on refinance transactions. Premium pricing may also be used to pay lender funded buydowns on fixed-rate purchase transactions, provided the funds generated do not result in a reduction of more than 2 percentage points below the Note rate. Funds derived from premium pricing may **not** be used to fund mortgage payments or portion of the down payment.
- **Real Estate Commission:** Any aggregate real estate commission including a “bonus” greater than 8% is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price. The appraiser is required to disclose whether the purchase contract was reviewed and, if so, comment on any excessive sales commission. Any excessive sales commission should be taken into consideration when arriving at the final value.
- **Title Policy:** An American Land Title Association (ALTA) policy is required on all Housing and Urban Development (HUD) Real Estate Owned (REO) loan sales purchased. The ALTA Policy must be included in the purchase delivery package. **Note:** This is an allowable fee to the buyer and the cost of the insurance must be indicated on the HUD-1 settlement statement. Title commitments, title insurance policies, or Insured Closing Protection Letters with no reinsurance requirement are once again accepted from the following companies: Commonwealth Land Title Insurance Company, Lawyers Title Insurance Corporation, LandAmerica NJ Title Insurance Company, and United Capital Title Insurance Company. If not referenced above, any former LandAmerica title companies remain ineligible. Effective with loans purchased on or after April 30, 2009, title commitments, title insurance policies, or insured closing protection letters from Attorney’s Title Guaranty Fund, Inc. (CO) will no longer be accepted. Loans purchased prior to April 30, 2009 with title insurance from Attorney’s Title Guaranty Fund, Inc. (CO) require evidence of adequate and acceptable reinsurance provided in the loan file.

## **BORROWER ELIGIBILITY:**

- **Eligible borrowers:** Includes individuals and investors (under limited circumstances). Eligible borrowers must provide evidence of Social Security Numbers on all FHA loans. Evidence includes a copy of the borrowers: Social Security Card; Or, Pay stub, W-2, or other government-issued card that includes the borrower’s Social Security Number. In addition, FHA requires validation of Social Security Numbers for consistency with the borrower’s name and date of birth through FHA Connection and ECHO systems or its equivalent. **Note:** Sellers are advised to resolve issues regarding Social Security Numbers before loans are delivered for purchase.
  - **Non-Permanent Residents:** Occupies the property as a principal residence. Have a valid Social Security Number. Eligible to work in the United States.
  - **Military Personnel:** Military personnel are considered occupant-owners and are eligible for maximum financing if a member of the immediate family will occupy the property as a principal residence, even if the service person is stationed elsewhere.
  - **Living Trusts:** Property held in a living trust is eligible for FHA mortgage insurance for owner-occupied property as long as the individual borrower remains a beneficiary and occupies the property as a principal residence. Property may also be held in a living trust if purchased from FHA’s inventory and an individual investor is the trust beneficiary.
- **Ineligible Borrower:** Charitable organizations; Non-profit agencies; State or local government agencies; Individuals with any of the following visa types: A-1, A-2, A-3, F-1, F-2, M-1.
- **Maximum Number of Borrowers:** Effective with loan applications dated on or after October 15, there will be a maximum of four borrowers allowed on a transaction.

## **BUYDOWNS:** Ineligible on 5/1 ARM loans.

- **Temporary:** 2-1 or 1-0. Funds may come from property seller, lender, or other interested 3rd party. High Balance (400Ha) 2-1 buydown only.
  - Allowed on 203(b), 203(h), and 234(c) loan programs.
  - Available on fixed-rate owner-occupied purchase transactions.
  - Monthly payment is bought down for a specific period.
  - Mortgage loan must be a level payment, unsubsidized mortgage.
  - The buydown may not result in more than 1% annual increase in the interest rate, and may increase only once a year.
  - The borrower must qualify at the Note rate.
  - The original buydown agreement, signed by the borrower and the provider of the funds, must accompany the loan application. 30-year terms only.
  - The following documentation is required for buydowns: A copy of the escrow agreement signed by the borrower and the provider of the funds at application. The underwriter may condition the loan approval for an executed buydown agreement at closing. The agreement must provide that any escrow funds not distributed at the time the loan is prepaid be applied to the outstanding balance due. The agreement must not allow reversion of undistributed funds to the provider if the property is sold or the mortgage is prepaid in full.
- **Permanent:** Permanent interest rate buydowns are designed to lower the borrowers’ monthly payments without requiring additional cash at closing. Permanent interest rate buydowns are subject to the following additional requirements:
  - Allowed on FHA 203(b) program only.
  - 30-year terms only.
  - The maximum reduction in the rate is 2% below the Note rate (including loans funded through premium pricing).

## Trust One Mortgage – 400a FHA Series

- Additional discounts (points) may be applied to reduce the note rate below the current market rate.
- Borrower must qualify at the Note rate.

**CREDIT:** All loans must be decisioned through Total Scorecard.

➤ **Credit Scores:** A full tri-merge credit report is required for all transactions. Credit scores must be obtained from major repositories, such as Equifax, Experian, and TransUnion. At least one score must be reported, and two or three scores are preferred. The middle score of the lowest scoring borrower should be used to determine eligibility. A minimum credit score of 620 is required for all borrowers with a credit score regardless of any AUS approval. A minimum 640 credit score is required on all FHA Streamline transactions. Non-traditional credit reports are ineligible.

➤ **Credit Score Guidance:** Use the following to determine the correct pricing add-ons and underwriting eligibility:

- Two occupant borrowers: the lower of the two middle scores should be used.
- Two borrowers with no credit scores: Not eligible.
- An occupant borrower with a credit score and an occupant borrower without a credit score: The reported credit score should be used and the loan must have an AUS approval.
- Occupant borrower and a non-occupant borrower: The lower of the two scores should be used.
- If the occupant borrower has no credit score, the loan is ineligible.
- If the non-occupant borrower has no credit score the occupant borrower's credit score should be used.

➤ **Bankruptcy:**

- **Chapter 7 Bankruptcies:** Liquidations are allowed after 24 months since the discharge date and good credit has been reestablished. Bankruptcies less than 24 months (but not less than 12 months) may be allowed provided the reason for the bankruptcy was due to extenuating circumstances, the borrower has exhibited an ability to manage financial affairs, and the reason for the bankruptcy is not likely to recur. A borrower whose bankruptcy has been discharged less than 12 months is not eligible (except on non-credit qualifying Streamline Refinances).
- **Chapter 13 Bankruptcies:** Bankruptcies are allowed after 12 months of the payout period provided performance has been satisfactory and borrower receives court approval to enter into the mortgage transaction. If it has been more than 24 months since the bankruptcy discharge, and the AUS risk decision received is an "Accept", the loan does not need manual downgrading and bankruptcy documentation is not required.
- **Note:** Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within 24 months of loan application date require compliance with the instructions regarding bankruptcies described in HUD Handbook 4155.1.

➤ **Consumer Credit Counseling:** Participation in a consumer credit counseling payment program does not disqualify a borrower from obtaining an FHA-insured mortgage provided the underwriter documents that one year of the pay-out period has elapsed under the plan and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive written permission from the counseling agency to enter into the mortgage transaction.

➤ **Foreclosure:** A borrower whose previous residence or other real property was foreclosed on or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible. If the foreclosure was greater than three years prior to the date of the application, and the risk decision received is an Accept, the loan does not need manual downgrading and foreclosure documentation is not required. Refer to HUD Handbook 4155.1 for exceptions and underwriting requirements.

➤ **Late Payments, Collection Accounts, and Delinquent Credit Items:** These adverse items include: Collection, tax lien, charge-off, or judgment; Any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months consisting of more than one 30-day late. If the risk decision received was an "Accept" and the items above appeared on the credit report and were considered by AUS, manual downgrading is not required and further documentation is not required. Follow FHA standard guidelines regarding payment of judgments and/or collections.

➤ **Minimum Credit History:** Tradelines on the credit report are acceptable and there are no specific requirements with respect to number of tradelines if the following requirements are met: Loan receives a DU Approve/Eligible; minimum number of credit scores required is met; minimum credit score required is met.

➤ **Mortgage Lates:** For Rate & Term refinance, the borrower cannot have any mortgage lates past 12 months when the LTV > 85%. FHA Streamline refinances do not allow 30-day or greater mortgage lates in the previous 12 months. A mortgage history on the property of less than 12 months is acceptable provided the payment history does not reflect any 30-day or greater mortgage lates.

➤ **Restructured loans, Loan modifications, Short pay and Short refinances:** Ineligible. A restructured or short payoff loan is a mortgage loan in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan. Restructured loans result in: Forgiveness of a portion of principal and/or interest on either the first or second mortgage; Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness; Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; Conversion of any portion of the original mortgage debt from secured to unsecured. The following scenarios

## Trust One Mortgage – 400a FHA Series

are a few common indicators that the loan may be a short payoff: The new loan amount is less than the current balance; The payoff amount on the final HUD-1 is less than the current balance; The payoff demand reflects a shortfall and uses the words “forgiven” or “payoff bonus”. To assist in identifying restructured or short payoff loans, the Investor may request the final HUD-1, payoff demand, or other evidence of the pay down or payoff source of funds.

**DISASTER AREA:** Refer to the Investor’s Disaster Areas for a comprehensive list of Presidentially declared areas subject to the disaster-area policy. FHA streamline refinance loans do not require an appraisal. To ensure the property has not been damaged, an exterior inspection performed by an FHA-approved inspector is required. Once an area is Presidentially declared for Individual Assistance and published by FEMA, one of three classifications of appraisal and re-inspection requirements is required.

➤ **Standard Procedures:**

- Performed On or Before Incident Period End Date for Disaster: Property must be re-inspected by the original appraiser or acceptable inspection source (such as, a nationally recognized field company or local professional licensed inspector). The appraiser/property inspector must provide the following commentary/evidence: Property is free from damage and the disaster had no affect on value or marketability; If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of the loan.
- Standard Appraisal Performed After Incident Period End Date for Disaster (Appraisal report forms 1004, 1004C, 1025, 1073, 2090): If the property is free from damage: Preferably, all comparables should be post-disaster; however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable. If the appraisal indicates damage: The extent of the damage must be addressed; Completion of repairs is required evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of loan.

➤ **Expanded Procedures:**

- Appraisal Performed On or Before Incident Period End Date for Disaster: Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. No exceptions. The appraiser must provide the following commentary/evidence: Property is free from damage and the disaster had no affect on value or marketability; If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of the loan; The completion of the Catastrophic Disaster Area Inspection form is not required; however, the appraisal must include a minimum of three comparable sales, post-disaster; Photos are provided of interior, exterior, and neighborhood; The Employment Verification Certification form is not required; however, standard divisional procedures still apply.
- Standard Appraisal Performed After Incident Period End Date for Disaster (Appraisal report forms 1004, 1004C, 1025, 1073, 2090): Appraisal must include written certification by the appraiser that: Property is free from damage and the disaster has had no affect on value or marketability; If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of the loan; The completion of the Catastrophic Disaster Area Inspection form is not required; however, the appraisal must include a minimum of three comparable sales, post-disaster; Photos are provided of interior, exterior, and neighborhood; The Employment Verification Certification is not required; however, standard divisional procedures still apply.

➤ **Suspended from Purchase/Lending Activities:** These areas are identified as having damage significantly above and beyond common disaster situations. The damage suggests pervasive problems with housing values as a result of the disaster. Until further notice, loans secured by properties located in these areas will not be purchased by the Investor.

**ESCROW (IMPOUNDS):** An impound/escrow account must be established for all loans, regardless of the LTV or the state in which the loan was originated. Impounds are required for the following as applicable: Taxes; Borrower-paid insurances (Mortgage, Hazard, Flood insurance, HO-6 (walls-in) condominium insurance. Impound/Escrow accounts are not required for Home Owners Association (HOA) dues. Exceptions: LTVs ≤ 80%, the purchase price for the loan will include an adjustment to the price; LTVs < 90% for CA, the purchase price for the loan will include an adjustment to the price; Authorization for Impound Account Form required to be signed and included in the loan file for CA loans with LTVs < 90%.

**GEOGRAPHIC RESTRICTIONS:** To look up eligible states and corresponding FHA mortgage limits for all areas go to: <https://entp.hud.gov/idapp/html/hicostlook.cfm>, or see ARRA 2010 FHA Loan Limits in Chapter 18 or on the Trust One website.

## Trust One Mortgage – 400a FHA Series

**HUD REO:** 1-4 unit properties for sale throughout the country acquired by HUD as a result of foreclosures. Many are priced below market value and are sold as is. Incentives vary and may include: \$100 down payment when using FHA financing; Sales allowances that can be used for closing costs, down payment, or to make repairs; Broker bonuses for owner-occupied sales. Not all states are eligible. To find out the HUD homes available and eligible incentives, visit: <http://www.hud.gov/salesincentives> for the following states: CO, MI, NM, TX, UT, WY. For specific details for the following states, please contact your local **Management and Marketing (M&M) Contractor:** AK, AZ, CA, HI, ID, NV, OK, OR, MO, WA. Real estate commissions are not restricted for HUD REO properties if the terms of the HUD contract are followed and the borrower is properly qualified.

➤ **Property Types:** Single-family dwellings; PUDs; Condos (must be prior approved by FHA. As of October 1, 2009 spot Condo approvals are ineligible. Condo spot approval loans must fund by September 30, 2009. Every Condo project that is approved must be re-confirmed with HUD before the loan is approved); 2-4 units.

➤ **Borrowers:** Individuals only. Note: Nonprofit organizations and government agencies are not eligible borrowers.

➤ **Occupancy:** Owner-occupied only.

➤ **Sales Approach:**

- **Insurable:** Properties marketed as "insurable" are those that meet FHA's MPR for existing housing and MPS for new construction at the time of the appraisal in their "as-is" condition without repairs being necessary.
- **Insurable with repair escrow:** A property that requires no more than \$5,000 for repairs to meet FHA's MPR or MPS as estimated by the PCR and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition with FHA mortgage insurance under the 203(b) repair escrow program, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in their mortgage an amount equal to 110 percent of the estimated cost of the repairs. Note that, per Mortgagee Letter 2005-50, properties designated insurable with repair escrow (\$5,000 or less in required repairs) may also be eligible for the Streamline (k) program provided that the repairs qualify as eligible work items.
- **Uninsurable:** Properties offered for sale as "uninsured" are ineligible.

➤ **Termite/Pest Inspection:** A termite inspection is required on existing property when called for in the sales or purchase agreement, or when the appraiser recommends the inspection in the appraisal report. The mortgage lender should contact the M&M contractor to determine if an inspection report has been performed, and, if it has, to obtain a copy of it.

➤ **Well and Septic System Inspections:** If the HUD REO property has a well and/or septic tank, mortgage lenders should contact the M&M contractor to determine if an inspection has been performed, and, if it has, to obtain a free copy of this inspection report. A septic test or inspection is required on existing property when called for in the sales or purchase agreement, or when the appraiser recommends the inspection in the appraisal report. A well test or inspection is required on existing property when called for in the sales or purchase agreement, or when the appraiser recommends the inspection in the appraisal report or if there is knowledge that well water may be contaminated or when the water supply relies upon a water purification system due to presence of contaminants or when there is evidence of: Corrosion of pipes (plumbing); Areas of intensive agriculture within 1/4 mile; Coal mining or gas drilling operations within 1/4 mile; Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within 1/4 mile; Unusually objectionable taste, smell or appearance of well water. Note: Arrangements should be made with the M&M contractor for any required testing to be completed.

➤ **Home Inspection:** The borrower has the right to have the house inspected by a professional home inspector. HUD's M&M contractor shall permit entry to the purchaser(s) during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the mortgage lender or purchaser(s) must complete the systems check while the utilities are activated. Additionally, where FHA-insured financing is specified on the sales contract, a form HUD-92564-CN, "For Your Protection: Get A Home Inspection," must be provided to prospective homebuyers at first contact, be it pre-qualification, preapproval, or *no later than* initial application. If the form is incorporated within the executed sales contract in its entirety, then the homebuyer need not separately be provided with form HUD-92564-CN. In the event the home inspection or the systems check reveals that repairs are needed which no longer makes the property eligible for an FHA-insured 203(b) mortgage, the mortgage lender should contact the M&M contractor to discuss alternatives to allow the sale to continue. The M&M contractor may allow the modification of the sales contract, as needed, to reflect either an insured with repair escrow sale or to an FHA 203(k) sale in those instances where the mortgage lender provides them with sufficient documentation to support the change in financing. The sales contract must be revised to include this revision and initialed by both the purchaser and the M&M contractor.

➤ **Down Payment:** The maximum mortgage amount and minimum cash investment must be calculated using the "Mortgage Credit Analysis Worksheet" (form HUD-92900- LT). The minimum cash investment must be 3 percent of the sales price, if the property does not qualify for any incentives.

## Trust One Mortgage – 400a FHA Series

➤ **Additional Sales Incentives:** From time-to-time, for particular properties or in particular areas, HUD may authorize additional sales incentives. Where additional incentives are authorized, they will be noted in writing on either the HUD Sales Contract or on a cover letter accompanying the HUD sales contract. DE lenders may not apply other incentives based on oral instructions from borrowers, realtors or any other parties. Where a discount on the sales price is being provided, the mortgage amount shall be based on the lesser of the "as-is" value or the discounted sales price, not the contract sales price. Closing costs and prepaids may not be included in the mortgage (the Good Neighbor Next Door Sales Program is an exception).

➤ **Closing Costs/Prepaid Expenses:** For HUD-paid closing costs, HUD has authorized as a sales incentive, purchasers to specify in Item 5 on the HUD sales contract an amount which HUD, as seller, may pay on the borrower's behalf at settlement. This amount may be applied to the actual cost of closing costs and/or prepaid expenses. If the total of actual costs of such closing costs and/or prepaid expenses is less than the amount specified in Item 5, the balance may not be credited to the borrower. Depending upon the amount of closing costs that HUD pays for the borrower, the maximum mortgage amount may have to be reduced in order for the borrower to meet the minimum cash investment required. Closing costs and prepaid expenses may not be included in the mortgage amount. However, closing costs (but not prepaids) paid by the borrower do count toward satisfying the 3 percent minimum cash investment.

### MORTGAGE INSURANCE:

➤ **UFMIP Requirements:** May not be partially financed. Up-front mortgage insurance premiums (UFMIP) are refundable within the first 5 business days of posting. Investor does not purchase loans until applicable UFMIPs have been posted for at least 5 business days. The premiums must be wired within 10 days of the Seller's closing of the loan by the originating Seller.

➤ **Proof One-Time Mortgage Insurance Premium Paid:** Investor accepts the following documentation, including reference to the individual case number, as proof that the one-time mortgage insurance premium was paid (OTMIP) at the time of loan delivery:

- Copy of the automated clearing house transaction (ACH transmittal).
- FHA Connection or ECHO system printout.
- Statement of Account.
- WINDOWS 95 (MELLON) printout.

➤ **Proof of Mortgage Insurance Certification:** FHA loans that were closed 60 days or more prior to purchase must contain proof that the Mortgage Insurance Certificate (MIC) has been issued. A copy of the MIC should be included in the loan file. The original MIC must be included with the remaining trailer, or post purchase, documents.

➤ **Time Frame to Obtain Insurance:** Effective with loans purchased on or after December 1, 2009, all government loans must be insured within ninety (90) days from the settlement date on the HUD-1 Settlement Statement. This insurance requirement will be verified as follows: FHA loans will be verified via FHA Connection. At the sole discretion of the Investor, Investor reserves the right to shorten the allowable time frame for government loan insuring at the Client level with prior written notice.

➤ **Finance Requirements:** The borrower may finance 100% of the MIP or pay the entire amount in cash. The amount of the premium depends upon the mortgage amount and the calendar year in which the loan was closed.

➤ **Monthly MIP:** For certain types of mortgages insured by FHA, the mortgage insurance premium is collected monthly. The monthly premium varies by program, outstanding principal balance, and interest rate. The insurance premium factors are published in *FHA Handbook 2025*, as cited in *HUD Handbook 4000.2, REV 2, July 30, 1991*. **Note:** *FHA Handbook 2025.1* provides instructions for using the published tables.

- **Estimating the Monthly MIP:** While any MIP charged on a monthly basis is affected by the interest rate and reduction of the principal balance, an estimate of the monthly MIP may be made as follows: Assuming a monthly MIP factor of .5%: Multiply the outstanding principal balance by 0.005, then divide by 12; **Or**, Divide the principal balance by 2400. **Note:** Pricing and loan program eligibility are determined using the base loan amount prior to financing UFMIP.

#### Up-front and Annual MIP

Mortgage Term > 15 Years			Mortgage Term ≤ 15 Years		
LTV	Purchase & Refinance	Streamline Refinance	LTV	Purchase & Refinance	Streamline Refinance
> 95%	1.75%/0.55%	1.50%/0.55%	> 90%	1.75%/0.25%	1.50%/0.25%
≤ 95%	1.75%/0.50%	1.50%/0.50%	≤ 90%	1.75%/0.00%	1.75%/0.00%

The number of years will be determined when the loan balance equals 78% LTV, provided the borrower has paid annual MIP for at least 5 years, (scheduled or actual.). Loan amount multiplied by Annual premium, divided by 12 mos. equals monthly MIP. All FHA loans will have upfront and monthly premiums, except as noted above. Program eligibility is determined using the base loan amount prior to financing UFMIP. Pricing is determined using the Note loan amount. (Base loan amount + UFMIP). UFMIP must be 100% financed into the mortgage or paid entirely by cash: partial financing not allowed.

➤ **UFMIP for Refinance Transactions:** The UFMIP for all refinance transactions is based on the borrower's credit score and the loan-to-value. The amount of unearned premium refunded, if applicable, depends on when the mortgage was closed. The following requirements are applicable to Regular and Streamline refinances (except those Streamline refinances of mortgages closed before July 1, 1991):

- **Mortgages closed after July 1, 1991, but before January 1, 2001:** The 7-year unearned premium refund schedule shown in Mortgagee Letter 94-1 remains in effect.
- **Mortgages closed on or after January 1, 2001, but endorsed before December 8, 2004, that are subsequently refinanced:** The 5-year refund schedule shown in Mortgagee Letter 00-46 applies.

## Trust One Mortgage – 400a FHA Series

- **Mortgages endorsed on or after December 8, 2004, that are subsequently refinanced:** The mortgage will not be eligible for a refund of the UFMIP except when the borrower refinances to another mortgage to be insured by FHA. The 3-year refund schedule shown in Mortgagee Letter 05-03 applies.
  - **Streamline Refinances of Mortgages Closed Before July 1, 1991:** These loans remain exempt from the annual premium and are charged an upfront premium of 1.50%.
  - **Streamline Refinances of Mortgages with case numbers assigned between July 14, 2008 and September 30, 2008:** UFMIP: 1.00%. Annual MIP: .50%. The MIP for the subsequent Streamline refinance is based on the credit score and loan-to-value for the existing mortgage being refinanced. If the Streamline refinance is “credit qualifying” with or without an appraisal, the MIP is based on the new credit score and the loan-to-value from the existing mortgage being refinanced.
- **Cancellation of MIP:** The annual MIP is automatically canceled by HUD once the unpaid principal balance reaches 78% of the lower of the initial sales price or the appraised value based on the initial amortization schedule. FHA’s calculation of the 78% threshold is based on the: Loan amount, excluding the UFMIP; Initial sales price or original appraised value, whichever is less; MIP cancellation of a Streamline Refinance without an appraisal is determined based on the “original appraised value” provided by HUD.

**MULTIPLE PROPERTIES:** Borrower may own no more than one FHA loan, otherwise the borrower may have an unlimited number of financed properties.

### **OCCUPANCY:**

➤ **Primary Residence:** A primary residence is a property that will be occupied by the borrower the majority of the calendar year and meets the following criteria: 1-4 units family homes, PUDs, FHA-approved condominiums, HUD-owned properties; At least one borrower must occupy the property and sign the Note and security instrument for the property to be considered owner-occupied; The borrower must occupy the property within 60 days after the loan closes with continued occupancy for at least one year. The only exceptions allowed are due to hardship or extenuating circumstances; 3-4 unit properties require an [Occupancy Declaration](#) to be included in the loan file; There is no limit on the maximum acreage for FHA loans.

➤ **Second Primary Residence:** Generally, FHA will not insure more than one mortgage for any borrower. Any person individually or jointly owning a home covered by a mortgage insured by FHA in which ownership is maintained may not purchase another principal residence with FHA mortgage insurance, except under the conditions described below.

- **Relocation:** If the borrower is relocating and reestablishing residency in another area not within reasonable commuting distance from the current principal residence (generally at least 50 miles away), the borrower may obtain another mortgage using FHA-insured financing and is not required to sell the existing property covered by a FHA-insured mortgage. Refer to the local FHA office for specific requirements.
- **Increase in family size:** The borrower may be permitted to obtain another home with a FHA-insured mortgage if the number of legal dependents increases to the point that the present house no longer meets the family’s needs. The borrower must provide satisfactory evidence of the increase in dependents and the property’s failure to meet the family’s needs. Paydown the outstanding mortgage balance on the present property to a 75% or less LTV ratio exclusive of any financed MIP.
- **Vacating a jointly owned property:** If the borrower is vacating a residence that will remain occupied by a co-borrower, the borrower is permitted to obtain another FHA-insured mortgage. Acceptable situations include instances of divorce after which the vacating ex-spouse will purchase a new home or one of the co-borrowers will vacate the existing property.
- **Non-occupying Co-borrower:** A non-occupying co-borrower on a FHA-insured mortgage being purchased as a principal residence by other family members may have a joint interest in that property as well as the principal residence that is covered by a FHA mortgage.

**Note:** Properties previously acquired as investment properties are not subject to these restrictions.

➤ **Second Home:** A second home is a property that the borrower occupies in addition to the primary residence. Second homes are only permitted when the local FHA office agrees that an “undue hardship” exists, meaning that affordable rental housing that meets the needs of the family is not available for lease in the area or within reasonable commuting distance to work. The maximum loan amount for second homes is restricted to 85% of the lesser of the appraisal value or sales price.

➤ **Investment Property:** An investment property is a property that is not occupied by the borrower as either a primary residence or as a second home. Some investment properties may be eligible for a FHA-insured mortgage. Refer to the FHA Homeownership Center (HOC) for complete information.

**PREPAYMENT PENALTY:** None.

# Trust One Mortgage – 400a FHA Series

## PROPERTY REQUIREMENTS:

### ➤ **Eligible:**

- 1-4 family - 203(b)
- PUD - 203(b)
- New or Existing properties.
- Condominium: FHA 234(c) insures mortgages for the purchase or refinance of condominium units in FHA-approved condominium projects only. Site condominiums do not require FHA approval and must be processed under Section 203(b). To determine which condominium projects are FHA-approved, refer to the following Web site:  
<https://entp.hud.gov/idapp/html/condlook.cfm>. Two condominium project approval processing options are available for lenders as detailed below. These processes provide project approval on individual units under Section 203(b) of the National Housing Act and replace the FHA Spot Loan approval process. For additional details refer to Mortgage Letter 2009-46A and 2009-46B.
  - **Direct Endorsement Lender Review and Approval Process (DELRAP):** This option is only available to lenders who have unconditional Direct Endorsement (DE) authority and staff with knowledge and expertise in reviewing and approving condominium projects. Under this process, lenders must provide their condominium approval or denial documents to FHA within five business days of final disposition. These documents must be uploaded using PDF format through FHA connection.
  - **HUD Review and Approval Process (HRAP):** This option allows lenders to submit condominium projects with relevant documentation directly to HUD for review and approval at their discretion, in lieu of using the DELRAP process. This enables HUD to make the determination as to the eligibility of a specific project rather than the DE underwriter.
  - **Eligible property types:** Condominium projects of 2 or more units and site (detached) condominiums. Site condominiums do not require project approval. Site condominiums are defined as single-family totally detached dwellings (no shared garages or any other attached buildings) encumbered by a declaration of condominium covenants or condominium form of ownership. Site condominiums not meeting this definition will require project approval.
  - **HO-6 (walls-in) Insurance:** HO-6 (walls-in) insurance policies are required on all condominium loans where the master HOA policy does not provide coverage of the interior of the unit. HO-6 policies must cover the fixtures, equipment, and replacement of improvements and provide betterment coverage to include any improvements that the borrower may have made. Impounds are required for HO-6 (walls-in) insurance. This includes FHA streamline loans and may affect the 5% savings calculations.
- HUD-owned properties that were underwritten to HUD guidelines.
- Properties held in living trusts, if beneficiaries occupy them as principal residences.
- Properties purchased by military personnel if stationed elsewhere and occupied as principal residences by immediate family members.
- Rural properties eligible in California only.

### ➤ **Ineligible Properties:**

- Modular or prefabricated homes (factory constructed and assembled on site).
- Mobile Homes/Manufactured Homes.
- Commercial enterprises.
- Boarding houses, hotels, motels, and tourist homes.
- Private clubs.
- Sanitariums.
- Fraternity and sorority houses.
- Condotels.
- Cooperatives.
- Log homes.

## Trust One Mortgage – 400a FHA Series

➤ **Converting Primary Residence into Investment Property:** Beginning with case number assignments on or after September 19, 2008 and until further notice, the underwriting analysis may *not* consider any rental income from the property being vacated.

*Exceptions:* Rental income on the property being vacated, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see <http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm>) may be considered in the underwriting analysis under the following circumstances:

- **Relocations:** The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.
- **Sufficient Equity in Vacated Property:** The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae® 1004/Freddie Mac® 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.

The above guidance applies solely to a primary residence being vacated in favor of another primary residence and is not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040). If the property being vacated had a mortgage insured by FHA, eligibility for a second FHA insured mortgage can only occur under the exemptions described in handbook HUD-4155.1 REV-5, paragraph 1-2. Refer to HUD's Mortgage Letter 2008-25 for details.

### **QUALIFYING:**

➤ **5/1 ARM:** Borrower qualifies at note rate.

➤ **Ratios:** FHA uses Effective Gross Income instead of Net Effective Income to qualify loans. The ratios of 31%/43% may be exceeded on AUS-approved transactions. When the 31%/43% ratios are exceeded, the Seller must use the FHA Underwriting Transmittal to explain the reason and list the compensating factors. The FHA Underwriting Transmittal must be included in the loan file.

**REFINANCE TRANSACTIONS:** Refinance transactions are characterized as Streamline, no cash-out (non-Streamline), and cash-out. Most no-cash-out refinances can be done under the Streamline program. However, the no-cash-out (non-Streamline) program is available for those cases when the Streamline eligibility requirements are not met (such as when the existing loan is not insured by FHA). All types of refinance transactions, including FHA Streamline Refinances are eligible, except for: Fixed-rate refinance loans made to borrowers that were delinquent on their previous mortgage; Refinance transactions involving temporary buydowns; Cash-out refinances for FHA loans in Texas; Existing or modified re-subordinated liens on No Cash-Out or Cash Out refinances. Detailed information regarding FHA Cash-Out and No-Cash-Out requirements may be found in HUD Handbook 4155.1. Borrowers that were delinquent on their previous mortgage and/or who obtained a new subordinate lien are ineligible for a fixed-rate FHA refinance. The following requirements are applicable to "no-cash-out" and "cash-out" refinance transactions: Owner-occupied only. The following documentation is required: VOM or other documentation that indicates the principal balance, the date the loan originated, names of original borrowers, and the type of loan; All required credit/income verifications; Verification of the borrower's Social Security number. The maximum percentage of financing is governed by: The occupancy status of the property; The use of the loan proceeds; and How and when the property was purchased. For all refinances, the case binder must include the payoff statements and the calculations used for the FHA Underwriting Transmittal. Also, the refinance cost breakdown form or a similar form that identifies payoff and closing costs used to calculate the loan amount must be submitted. A payoff demand statement is required and must reflect that the loan is not more than 30 days delinquent, does not contain charges associated with default/forbearance, does not indicate a curtailment of principal/interest (short pay), and meets the mortgage derogatory requirements.

➤ **No Cash-Out:** All proceeds are used to pay existing liens and costs associated with the transaction. Cash back to the borrower is not allowed with the exception of minor adjustments at closing, provided the amount does not exceed \$500. The maximum mortgage amount is the lower of the loan-to-value (LTV) or the existing debt calculation described below, and may never exceed the FHA loan limit except by the amount of any new up-front MIP. To calculate the LTV ratio applied to the appraised value, multiply the appraised value of the property by the appropriate factor, as shown in the list below, for the property's value and the state where it is located. Any appraisal requirements, including repairs, must be complied with before the mortgage is eligible for insurance endorsement. Maximum CLTV on FHA rate/term refi transactions with new subordinate financing is 100%. New subordinate financing, for the purpose of this guideline, is defined as secondary financing: Originated concurrently or within six months prior to the closing date of the subject FHA refi transaction, and Not part of the original purchase transaction. **Equity Line of Credit:** If any portion of the funds of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was used for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in a no cash-out refinance.

## Trust One Mortgage – 400a FHA Series

➤ **Existing Debt:** To calculate the existing debt, add together the amount of the: Existing first lien, Any purchase money second mortgage, Any junior liens over 12 months old, Borrower-paid closing costs, Prepaid expenses, Borrower-paid repairs required by the appraisal, Discount points, Other fees as determined acceptable by the appropriate Homeownership Center (HOC) and then subtract any refund of UFMIP. The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages), up to 60 days maximum. The amount also may include any prepayment penalties assessed on a conventional mortgage or FHA Title I loan and accrued late charges and escrow shortages. The amount of the existing first mortgage may not include delinquent interest. Prepaid expenses may include the per-diem interest to the end of the month on the new loan, hazard insurance premium deposits, mortgage insurance premium, and any real estate tax deposits needed to establish the escrow account. If the new loan is used to refinance an existing mortgage to buy out an ex-spouse's or other co-mortgagor's equity, the specified equity to be paid is considered property related indebtedness and is eligible for inclusion in calculating the new mortgage. The divorce decree, settlement agreement, or other equity agreement must be provided to document the equity awarded to the ex-spouse or co-mortgagor.

➤ **Non-FHA to FHA:** If the property was acquired less than one year before the loan application and is not already FHA-insured, the original sales price of the property (rather than the appraised value) must be used in determining the maximum mortgage. With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price when calculating the mortgage amount.

➤ **Cash-Out:** A cash-out is a first lien in which the loan proceeds may include the funds required to pay off any existing liens, related prepaids, closing costs, and the disbursement of cash to the borrower. FHA will allow a cash-out refinance of up to 85% loan-to-value subject to meeting all of the following eligibility conditions:

- If the property (1-4 units) is an owner-occupied principal residence and owned for: One year or more preceding the date of the loan application: 85% LTV/CLTV based on amount of the appraised value; Less than one year preceding loan application: 85% LTV/CLTV based on the lesser of the property's appraised value or the original sales price. Discount points and prepaid expenses may not be included with closing costs nor otherwise added to the property's appraised value.
- Co-borrowers or co-signers added to the Note or currently on the Note must occupy the property securing the new FHA-insured mortgage. Non-occupant co-borrowers or co-signers may not be added to the Note to meet FHA credit underwriting guidelines.
- If said property is encumbered by a mortgage, the borrower must have made all of his/her mortgage payments within the month due for the previous 12 months (no payment may have been more than 30 days late and is current for the month due).
- Subordinate financing (existing or modified secondary financing) may remain in place, but subordinate to the FHA insured first mortgage, regardless of the total indebtedness or combined loan-to-value ratio, provided the homeowner qualifies for making scheduled payments on all liens.
- New subordinate financing is limited to a maximum 85% CLTV.

➤ **Streamline Refinance:** The FHA Streamline refinance program is designed to lower the monthly principal and interest payments on a current FHA-insured mortgage. Streamline refinances are subject to the following requirements:

- The base loan amount may not exceed HUD county limits on FHA Streamline refinance loans.
- Cash-back to the borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed \$500.
- Allowed with or without an appraisal.
- Must result in an immediate payment reduction to the borrower.
- Non-owner-occupied ARM or fixed-period ARM loans are not eligible for the Streamline refinance program.
- Loans closed prior to July 1, 1991, with or without an appraisal is exempt from annual MIP; however, UFMIP is required.
- Must include documentation attached to the Loan Purchase Voucher (LPV) at the time of delivery to indicate that the mortgage being refinanced was closed on or before July 1, 1991. Note: This documentation may be in the form of a photocopy of the Note, HUD-1, MIC, copy of the recorded mortgage, or other credible evidence.
- Seasoning: A loan application cannot be taken until the actual date the 6<sup>th</sup> payment is due has passed. In other words, if the borrower made the 6<sup>th</sup> payment on the 20<sup>th</sup>, but the 6<sup>th</sup> payment is not due until the 1<sup>st</sup> of the following month, you cannot take the application until the 1<sup>st</sup> of the following month.
- Payment History: At the time of loan application, the borrower must exhibit an acceptable payment history as follows: For mortgages with less than a 12 month payment history, the borrower must have made all mortgage payments within the month due. For mortgages with a 12 month payment history or greater, the borrower must have: Experienced no more than *one* 30 day late payment in the preceding 12 months, *AND* Made all mortgage payments within the month due for the three months prior to the date of loan application.

## Trust One Mortgage – 400a FHA Series

- **Net Tangible Benefit:** Trust One must determine that there is a net tangible benefit as a result of the Streamline refinance transaction, with or without an appraisal. Net tangible benefit is defined as follows: Fixed to Fixed or ARM to ARM: A minimum 5% reduction in the total mortgage payment (principal, interest, taxes and insurances, homeowners' association fees, ground rents, special assessments and all subordinate liens); Fixed to ARM: The new ARM rate must be at least 2% less than the current Fixed rate; ARM to Fixed: The new Fixed rate may not be more than 2% above the current ARM rate. Note: Streamline refinancing to ARMs will be ineligible on investment properties and second homes.
  - **Certifications and Verifications:** When submitting the loan for insurance endorsement, the lender must include a signed and dated cover letter on their letterhead certifying that the borrower is employed and has income at the time of loan application.
  - **Assets:** If assets are needed to close, the lender must verify and document those assets.
  - **Credit Score:** Available credit scores must be entered into FHA Connection. If more than one credit score is available, lenders must enter all available credit scores. A minimum 640 credit score is now required on all FHA Streamline transactions. FHA Streamline loans with scores less than 640 must close by December 31, 2009 and be purchased by January 31, 2010.
  - **Maximum Combined Loan to Value:** If subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 125%. For Streamline refinance transactions WITHOUT an appraisal, the combined loan-to-value (CLTV) is based on the original appraised value of the property. For Streamline refinance transactions WITH an appraisal, the combined loan-to-value (CLTV) is based on the new appraised value.
  - **TOTAL Scorecard:** Lenders may not use TOTAL Scorecard on Streamline refinance transactions. If a lender uses TOTAL Scorecard, the loan must then be underwritten and closed as a rate and term (no cash-out) refinance transaction.
  - **Uniform Residential Loan Application (URLA):** Mortgagees may no longer use an abbreviated version of the URLA.
- **Streamline Refinance Without an Appraisal:** At the time the case number is assigned, the "original value" must be obtained from FHA Connection or ECHO systems for a Streamline Refinance without an appraisal. If FHA does not provide the "original value," then the LTV ratio must be considered to be less than 90% for the purpose of determining the term of the annual premium. The new base loan amount may not exceed the lesser of: The maximum insurable mortgage cannot exceed the outstanding principal balance *minus* the applicable refund of the UFMIP, **PLUS** the new UFMIP that will be charged on the refinance.
- **Streamline Refinance With An Appraisal:** The maximum insurable mortgage is the *lower* of: The outstanding principal balance *minus* the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account, and the new UFMIP that will be charged on the refinance; **OR** 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.
- **Properties Owned Free and Clear:** Properties owned free and clear must be refinanced as a cash-out refinance transaction.
- **Debt Consolidation:** Cash-out refinances for debt consolidation represent considerable risk, especially if the borrower(s) have not had an attendant increase in income. Such transactions must be carefully evaluated.
- **No Advance Arrangements Permitted:** Clients are not permitted to make advance arrangements with the borrowers to refinance the mortgage.
- **Properties Listed for Sale:** Refinances on properties listed for sale are not permitted. Properties previously listed for sale must have been off the market and the listing canceled in the time frames described below:
- **Rate and Term Refinances:** The listing agreement must be canceled at least one day prior to the date the loan application is taken.
  - **Cash Out Refinances:** Listing agreements on the subject property must be canceled six months prior to the loan application date or the loan is subject to a maximum loan-to-value of 70%.
  - In all circumstances, listing agreements must be canceled prior to the loan application. A copy of the canceled/expired listing should be placed in the file and a search of the current multiple listing service should be completed to verify that the property is not currently listed by a different agency. Note: This policy does not apply to FHA Streamline loans.

# Trust One Mortgage – 400a FHA Series

## RESALE REQUIREMENTS:

- **Property Flipping:** Property flipping is a practice whereby a property recently acquired is re-sold for a considerable profit with an artificially inflated value. To address the issue of property flipping, FHA has placed certain time restrictions and additional documentation requirements on purchase transactions involving the resale of an existing property, including 203(k) loans.
- **Resale Less Than 90 Days:** The property is not eligible for FHA mortgage insurance if the resale date is 90 days or less following acquisition by the Seller. Time restrictions do not apply to:
  - FHA REO properties sold by FHA.
  - Resales of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency does **not** include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
  - A builder selling a newly built home or building a home for a homebuyer wanting to use FHA-insured financing (example: A builder selling to another builder prior to the completion of a home would be exempt from the time restrictions.)
  - Property inherited by the property seller. The property seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The property seller must still be the owner of record but the 90 day ownership period will not be required. Further, since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
  - Single-family REO properties sold by all federal government agencies (this does not include Fannie Mae or Freddie Mac.)
  - Sales by other U.S. government agencies of single family properties pursuant to programs operated by these agencies.
  - Sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
  - Sales of properties by state and federally chartered financial institutions and government sponsored enterprises (e.g. Fannie Mae and Freddie Mac).
  - Sales of properties by local and state government agencies.
  - Sales of properties within Presidentially-Declared Disaster Areas (upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster).
  - Sales of properties acquired by foreclosure by state licensed mortgage lenders and/or servicing lenders, whether sold directly by the mortgage lender or their subsidiaries; or by vendors to whom they have transferred titles to properties for the purpose of effectuating sales of those properties.
  - **Note:** Properties acquired by individuals, investment groups, REO property re-sellers, or others whose intent is the purchase, repair, and reselling of the property are not exempt from the 90-day resale restriction.
- **Resale Greater Than 90 Days:** Loans with resale dates greater than 90 days and up to 180 days may require supplemental documentation, including an additional appraisal as follows: If the resale price is greater than or equal to 100% over the property seller's acquisition price, a second FHA appraisal (from a new appraiser) is required. The second appraisal must be paid for by the lender. **The second appraisal cannot be charged to the borrower.** If the resale price is less than 100% of the property seller's acquisition price, then no additional appraisal documentation is required.
- **Property Eligibility:** Property eligibility is dependent upon the time that has elapsed between the date the seller acquired the property (based on the settlement date) and the date the buyer signed the sales contract or purchase offer (the resale date). If you are uncertain about property eligibility, check with your local Home Ownership Center (HOC).

**RESERVES:** Applies only to purchases, not refinances.

- **1-2 Units:** None.
- **3-4 Units:** 3 months' PITI available after closing

**SECONDARY FINANCING:** Not Applicable. Down Payment Assistance Programs (DAP) no longer eligible.