



Introduction To FHA
Lending
Basics

General Requirements

- Owner occupied, full doc, 1-4 Unit, Condo and PUD properties only.
- Maximum loan size requirements vary and are determined by state and county. See calculator at: <https://entp.hud.gov/idapp/html/hicostlook.cfm>
- Max LTV 96.5% on purchase 1-4 unit and 97.75% no cash out refinance.
- 85% LTV on cash out refinance on 1-2 unit properties (Debt consolidation or HELOC's drawn in the last 12 months are treated the same as cash out)
 - Must own and occupy property at least 1 year with no lates or max 85%
 - No non-titled co-borrower or max LTV is 85%
 - No 3-4 unit or max LTV is 85%
 - Must own property > 1 year or max LTV is 85%
 - The lesser of appraised value or original purchase price will be used when property has been owned less than 1 year

Guideline Summary – Full Doc

- 4506T required on all loans
- Wage Earner - 2yrs W2's and current pay stub (4506 is required and checked prior to close)
- Self Employed Sole Proprietor/1099 commissioned
 - 2 years signed and dated tax returns (all schedules)
 - YTD P & L
- Self Employed Partnership or S Corp
 - 2 years signed and dated personal and business tax returns (all schedules)
 - YTD P & L
- 2 years continuous employment necessary for primary borrower (does not have to be same job)
- Part-time jobs for any borrower must have 2 year minimum continuous employment (1 year considered with compensating factors)

Guideline Summary – Assets

- Reserves
 - Refi – Not required
 - Purchase – 3 months PITI (S & S for 3 months) required on 3-4 units only.
- Purchase Down Payment/Funds to close
 - Must have minimum 3.5% into transaction
 - Funds must be sourced with any large deposits sourced and explained.
 - Gifts are allowed from immediate family member
 - Gift letter, proof of funds and proof of transfer (certified check and deposit into borrowers account) are required.

Guideline Summary – Credit

- 620 minimum credit score.
- Tri-merge credit bureau is required.
- Limited or no credit borrowers are considered.
 - Use alternative – 3 tradelines for 12 months
- Explanations (from the borrower) are required on;
 - All lates in last two years
 - All major lates beyond last two years
- Secured borrowing such as 401K is not included in DTI.
- Collections over 12 months old may not have to be paid unless they effect title or are court ordered. Tax liens may be left open if they are subordinated and included in DTI.
- Last 12 months mortgage history must be shown on credit report, documented via institutional VOM or 12 months cancelled checks.
- Last 12 months rental history must be documented via apartment management company VOR or last 12 months cancelled checks.
- 3 years seasoning required on foreclosure/NOD/deed in lieu (extenuating circumstances considered as exception)

Guideline Summary – Past BK

- Chapter 7
 - 2 years discharged
 - Exception for 1 year with extenuating circumstances beyond customer control (illness, loss of job, etc.) and proof
 - No derog since BK
- Chapter 13
 - 1 year since filing
 - Discharged already or through closing (considered cash out if through closing)
 - Perfect pay on BK and no other derog since
- CCCS
 - 1 year since filing
 - On time CCCS payments

Guideline Summary – Other

- Borrower may not have defaulted on any prior government loans (exceptions can be considered if the borrower has now rectified the debt with the government).
- Borrower may be delinquent on current non-government ARM loan if reason for delinquency is ARM re-set.
- Debt Ratio guidelines are 31/43 (exceptions can be made with AU approval or comp factors).
- 6% seller concessions on purchase loans.
- Non-occupant Co-Borrower is acceptable to 98.75% (max LTV 85% on cash out refi)
- Non-permanent resident aliens are acceptable.
- Unlimited cash out on refinance.

Compensating Factors

- The borrower has successfully demonstrated the ability to pay housing equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months.
- The borrower makes a large down payment. (10% or more) toward the purchase of the property.
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expense.
- The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.

Compensating Factors – Cont.

- There is only a minimal increase in borrower's housing expense
- The borrower has substantial documented cash reserves (at least 3 months worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the lender must judge whether or not the asset is liquid or readily convertible to cash and can be done so, absent retirement or job termination.
- The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computations).
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home being purchased as a result of a relocation of the primary wage-earner.

Commonly Requested Exceptions

- Lates After BK
 - Lates after BK are generally unacceptable. Per FHA guidelines, the hierarchy of credit evaluation is the manner of payments made on previous housing expenses, including utilities, followed by the payment history of installment debts and then revolving accounts. Generally, an individual with no late housing or installment accounts is considered as having an acceptable credit history unless there is major derogatory credit on his/her revolving accounts (greater than 90, charge off, collection or judgment).
 - If there are lates after a BK, please first consider item a. above. If the lates are not on mortgage or installment accounts (or major other derog), it is ok to submit the file.
 - If there are lates on mortgage or installment debt (or major other derog) after the BK but it is outside of 24 months with two compensating factors and explanation of the lates, it is ok to submit the file.
 - If there are lates on mortgage or installment debt (or major other derog) after the BK but it is outside of 12 months, it is ok to submit the file if there are at least two compensating factors plus, a substantial monthly savings and no refi of the mortgage in the last 12 months.
 - If there are lates on mortgage or installment debt (or major other derog) after the BK and it is within the last 12 months, do not submit the file.

Commonly Requested Exceptions – Continued...

- Repetitive mortgage lates (defined as anything other than an isolated incidence or string that can be explained)
 - As noted in item 2.a. above, the hierarchy of credit evaluation is the manner of payments made on previous housing expenses, including utilities, followed by the payment history of installment debts and then revolving accounts. Generally, an individual with no late housing or installment accounts is considered as having an acceptable credit history unless there is major derogatory credit on his/her revolving accounts (greater than 90, charge off, collection or judgment). An individual with repetitive patterns of mortgage lates or mortgage lates after a prior NOD/FC, are generally unacceptable.
 - If the repetitive mortgage lates are outside of 24 months and the last 24 months have been paid as agreed, ok to submit.
 - If the repetitive mortgage lates are outside of 12 months, there has been no refinance in the last 12, there is no debt ratio exception and our payment is going down, ok to submit.
 - If there have been repetitive mortgage lates and the last late is within the last 12 months, do not submit.

Upfront and Monthly MIP

- Upfront MIP-Borrowers are required to pay an upfront, one time fee of 1.75% (1.50% on streamlines) of the base loan amount.
- Monthly MIP- is .50% if LTV \leq 95%, 55% if LTV is $>$ 95%.
- For mortgages with terms 15 years and less and with Loan to Value ratios 90 percent and greater, annual premiums will be canceled when the Loan to Value ratio reaches 78 percent regardless of the amount of time the mortgagor has paid the premiums.
 - For mortgages with terms more than 15 years, the annual mortgage insurance premiums will be canceled when the Loan to Value ratio reaches 78 percent, provided the mortgagor has paid the annual premium for at least 5 years
 - Mortgages with terms 15 years and less and with Loan to Value ratios of 89.99 percent and less will not be charged annual mortgage insurance premiums.

This slide show is an introduction only.
Full FHA guidelines should be reviewed in
HUD manual 4155.1 REV-5 available at
www.HUD.gov or through our FHA
Resource section of the website,
FHA Quick Start Guide link.

