

FHA Underwriting Guidelines

Effective For Case Numbers Assigned On or After 9/14/15

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Introduction

The following document describes the responsibilities and requirements of DE Underwriter when reviewing and underwriting Federal Housing Administration (FHA) mortgage loans for JMAC Lending, Inc. These guidelines are effective for case numbers assigned on or after September 14, 2015. These guidelines are to be used in conjunction with JMAC Lending's FHA Product Matrices to ensure full compliance with company requirements. **The product matrix should be considered the most updated, and relevant information.**

PART A. Lender Processing Requirements

1. Origination/Processing

a. Applications and Disclosures

JMAC must obtain a completed [Fannie Mae Form 1003/Freddie Mac Form 65, Uniform Residential Loan Application \(URLA\)](#) from the Borrower and provide all required federal and state disclosures in order to begin the origination process. JMAC is responsible for using the most recent version of all forms as of the date of completion of the form.

i. Contents of the Mortgage Application Package

JMAC must maintain all information and documentation that is relevant to its approval decision in the mortgage file. All information and documentation that is required in these guidelines, and any incidental information or documentation related to those requirements, is relevant to JMAC's approval decision.

If after obtaining all documentation required below, JMAC has reason to believe it needs additional support of the approval decision, JMAC must obtain additional explanation and documentation, consistent with information in the mortgage file to clarify or supplement the information and documentation submitted by the Borrower.

(A) General Requirements

(1) Maximum Age of Mortgage Documents

(a) General Document Age

Documents used in the origination and underwriting of a Mortgage may not be more than 120 Days old at the Disbursement Date. Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting Days for periods provided, Day one is the Day after the effective or issue date of the document, whichever is later.

(b) Appraisal Validity

(i) Initial Appraisal Validity

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The 120 Day validity period for an appraisal may be extended for 30 Days at the option of JMAC if (1) JMAC approved the Borrower or HUD issued the Firm Commitment before the expiration of the original appraisal. Extending the appraisal requires Team Lead or Management approval

(ii) Appraisal Update

An appraisal update must be performed before the initial appraisal, with no extension, has expired. Where the initial appraisal is subsequently updated, the updated appraisal is valid for a period of 240 days after the effective date of the initial appraisal report that is being updated.

(2) Handling of Documents

JMAC must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through the equipment of unknown parties, or Interested Parties.

JMAC may not accept or use any third party verifications that have been handled by, or transmitted from or through any Interested Party, or the Borrower.

(a) Information Sent to JMAC Electronically

JMAC must authenticate all documents received electronically by examining the source identifiers (e.g., the fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. JMAC must document the name and telephone number of the individual with whom JMAC verified the validity of the document.

(b) Information Obtained via Internet

JMAC must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. JMAC must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting JMAC's visit to the URL and website.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

(c) Confidentiality Policy for Credit Information

JMAC must not divulge sources of credit information, except as required by a contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with:

- Title VIII of the Civil Rights Act of 1968 (Fair Housing Act);
- the Fair Credit Reporting Act, Public Law 91-508;
- the Right to Privacy Act, Public Law 93-579;
- the Financial Privacy Act, Public Law 95-630; and
- the Equal Credit Opportunity Act, Public Law 94-239 and [12 CFR Part 202](#).

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(3) Signature Requirements for all Application Forms

All Borrowers must sign and date the initial and final [Fannie Mae Form 1003/Freddie Mac Form 65, Uniform Residential Loan Application \(URLA\)](#). All Borrowers must sign and date page two of the initial form [HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application](#), and sign and date the complete final form HUD-92900-A. The application may not be signed by any party who will not be on the Note.

- A Power of Attorney (POA) may not be used unless JMAC verifies and documents that all of the requirements have been satisfied per the JMAC Power of Attorney Policy, and receive Underwriting Manager approval.

Prohibition on Documents Signed in Blank

JMAC is not permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.

(4) Policy on Use of Electronic Signatures

(a) Definition

An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

(b) Use of Electronic Signatures

For now lets copy our existing policy since we haven't rolled out 100% acceptance of FHA guidelines on this.

(B) Mortgage Application and Initial Supporting Documentation

(1) URLA and HUD/VA Addendum to the URLA

Unless otherwise noted, *URLA* and *HUD/VA Addendum to the URLA* refer to both initial and final applications.

JMAC must obtain the Borrower's initial complete, signed *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and page two of form HUD-92900-A before underwriting the mortgage application.

JMAC must also include the debt of a non-borrowing spouse on the *URLA* if the Borrower resides in or the Property to be purchased is located in a community property state.

The loan originator identified on the *URLA* must be the actual licensed loan originator regardless of whether the loan originator is employed by a sponsored Third-Party Originator (TPO) or JMAC. The *URLA* must contain the loan originator's name, Nationwide Mortgage Licensing System and Registry (NMLS) identification number, telephone number, and signature.

(2) Mortgage Application Name Requirements

(a) Standard



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All mortgage applications must be executed in the legal names of all parties.

All mortgage applications must be executed in the name of one or more individuals.

(b) Required Documentation

JMAC must include a statement that it has verified the Borrower's identity using valid government-issued photo identification prior to endorsement of the Mortgage or JMAC may choose to include a copy of such photo identification as documentation.

(C) Borrower Authorization for Verification Information

(1) Borrower's Authorization

(a) Standard

JMAC must obtain the Borrower's authorization to verify the information needed to process the mortgage application. JMAC must obtain a non-borrowing spouse's consent and authorization where necessary to verify specific information required to process the mortgage application, including the non-borrowing spouse's consent for JMAC to verify their SSN with the Social Security Administration (SSA).

(b) Required Documentation

For each individual or Entity, Borrower authorization may be accomplished through a blanket authorization form.

(2) Form HUD-92900-A Part IV: Borrower Consent for Social Security Administration to Verify Social Security Number

JMAC must obtain the Borrower's signature on Part IV of form HUD-92900-A to verify the Borrower's SSN with the SSA.

(3) Tax Verification Form or Equivalent

JMAC must obtain the Borrower's signature on the appropriate Internal Revenue Service (IRS) form to obtain tax returns directly from the IRS for all credit-qualifying Mortgages at the time the final URLA is executed.

(D) Borrower's Authorization for Use of Information Protected under the Privacy Act

(1) Standard

JMAC must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the Mortgage or Property securing the Mortgage, and relating to any insurance claim and ultimate resolution of such claims by JMAC and FHA.

(2) Required Documentation

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JMAC must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.

(E) Sales Contract and Supporting Documentation

(1) Sales Contract

(a) Standard

JMAC must not originate an insured Mortgage for the purchase of a Property if any provision of the sales contract violates FHA requirements.

JMAC must ensure that (1) all purchasers listed on the sales contract are Borrowers, and (2) only Borrowers sign the sales contract.

An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.

The spouse of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.

(i) Amendatory Clause

If the Borrower does not receive form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, before signing the sales contract, the sales contract must be amended before closing to include an amendatory clause that contains the following language:

"It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than \$_____. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable."

*JMAC must ensure the actual dollar amount of the sales price stated in the contract has been inserted in the amendatory clause. Increases to the sale price require a revised amendatory clause.

An amendatory clause is not required in connection with:

- HUD REO sales;
- sales in which the seller is:
 - Fannie Mae;

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- Freddie Mac;
- U.S. Department of Veterans Affairs (VA);
- United States Department of Agriculture (USDA) Rural Housing Services;
- other federal, state, and local government agencies;
- a Mortgagee disposing of REO assets; or
- a seller at a foreclosure sale; or

(ii) Real Estate Certification

The Borrower, seller, and the real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that (1) the terms and conditions of the sales contract are true and (2) any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

A separate certification is not needed if the sales contract contains a statement that (1) there are no other agreements between parties and the terms constitute the entire agreement between the parties, and (2) all parties are signatories to the sales contract submitted at the time of underwriting.

(b) Required Documentation

JMAC must obtain all signed copies of sales contract(s), including a complete copy of the final sales contract with any modifications or revisions agreed upon by Borrower and seller.

ii. Disclosures and Legal Compliance

(A) HUD Required Disclosures

JMAC must provide or ensure the Borrower is provided with any disclosure required by FHA, including the following disclosures.

(1) Informed Consumer Choice Disclosure

JMAC must provide the Borrower with an Informed Consumer Choice Disclosure in accordance with the requirements of 24 CFR § 203.10 if the Borrower may qualify for similar non FHA-insured mortgage products offered by JMAC.

(2) Form HUD-92900-B, Important Notice to Homebuyers

JMAC must provide the Borrower with a copy of form HUD-92900-B, *Important Notice to Homebuyers*, signed by the Borrower and provide the Borrower with a copy to keep for the Borrower's records when the Borrower applies for the Mortgage. JMAC must retain the original form HUD-92900-B signed by the Borrower.

(3) Lead-Based Paint

If the Property was built before 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house, in accordance with the HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CFR 745, subpart F). For such Properties, JMAC must ensure that:

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- the Borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards (“Protect Your Family From Lead In Your Home”);
- the Borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or waived the opportunity;
- the sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:
 - containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1).
 - providing the seller’s disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;
 - listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
 - affirming that the Borrower received the pamphlet, disclosure, and records or reports, above; and
- when any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller’s Lead Disclosure Rule obligations, the agent is aware of his/her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

(4) Form HUD-92564-CN, For Your Protection: Get a Home Inspection

JMAC is required to provide form HUD-92564-CN, *For Your Protection: Get a Home Inspection*, to prospective homebuyers at first contact, be it for prequalification, pre-approval, or initial application.

(B) Compliance with all Applicable Laws, Rules and Requirements

JMAC is required to comply with all federal, state and local laws, rules, and requirements applicable to the mortgage transaction, including all applicable disclosure requirements and the requirements of the [Consumer Financial Protection Bureau \(CFPB\)](#), including those related to:

- Truth in Lending Act (TILA); and
- Real Estate Settlement Procedure Act (RESPA).

(C) Nondiscrimination Policy

JMAC must fully comply with all applicable provisions of:

- Title VIII of the Civil Rights Act of 1968 (Fair Housing Act);
- the Fair Credit Reporting Act, Public Law 91-508; and
- the Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202.

JMAC must make all determinations with respect to the adequacy of the Borrower’s income in a uniform manner without regard to race, color, religion, sex, national origin, familial status, handicap, marital status, actual or perceived sexual orientation, gender identity, source of income of the Borrower, or location of the Property.

iii. Application Document Processing

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(A) Mortgagee Responsibilities

JMAC must order the FHA case number and perform any associated tasks in [FHA Connection \(FHAC\)](#).. JMAC remains responsible for the quality of the Mortgage and for strict compliance with all applicable FHA requirements.

(1) Sponsored Third-Party Originator

JMAC is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved Mortgagees acting in the capacity of a sponsored TPO may have direct access to [FHAC](#).

(4) Excluded Parties

JMAC may not contract with Entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. JMAC must ensure that no sponsored TPO or contractor engages such an Entity or person to perform any function relating to the origination of an FHA-insured Mortgage. JMAC must check the [System for Award Management \(SAM\)](#), either directly or via DataVerify and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(B) Initial Document Processing

JMAC begins processing the Mortgage by obtaining an initial *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and Part V of form HUD-92900-A.

(1) Ordering Case Numbers

JMAC must use [FHAC](#) to order FHA case numbers. A case number can be obtained only when JMAC has an active mortgage application for the subject Borrower and Property.

In order to obtain a case number, JMAC must:

- provide the subject Borrower's name, SSN, and date of birth;
- provide the property address; and
- certify that JMAC has an active mortgage application for the subject Borrower and Property.

JMAC is not required to input appraiser information at the time the case number is ordered.

(a) Automated Data Processing Codes

FHA Automated Data Processing (ADP) Codes are derived from the section of the National Housing Act under which the Mortgage is to be insured. JMAC must select the correct ADP code for each Mortgage in [FHAC](#).

(b) Case Numbers on Sponsored Originations

JMAC will not be able to order case numbers for sponsored originations unless their sponsored TPO has been registered in [FHAC](#).

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(2) Holds Tracking

If FHAC detects that a case number currently exists for the Property, a case number will not be assigned. JMAC will receive notification that the case number assignment has been placed in Holds Tracking. JMAC must review the Holds Tracking screen in FHAC to determine the necessary actions to obtain a case number.

(3) Canceling and Reinstating Case Numbers

(a) Canceling a Case Number

JMAC may request cancellation of a case number by submitting a request to HUD. A case number will be cancelled only if:

- an appraisal has not been completed and the Borrower will not close the Mortgage as an FHA-insured Mortgage;
- the FHA mortgage insurance will not be sought; or
- the appraisal has already expired.

JMAC must submit a request for cancellation to the FHA Resource Center at answers@hud.gov using the Case Cancellation Request Template.

(b) Automatic Case Number Cancellations

Case numbers are automatically cancelled after six months if one of the following actions is not performed as a last action:

- appraisal information entered;
- Firm Commitment issued by FHA;
- insurance application received and subsequent updates; or
- Notices of Return (NOR) or resubmissions.

Updates to the Borrower's name and/or property address, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium (UFMIP) do not constitute Last Action Taken.

(c) Reinstatement of Case Numbers

JMAC may request reinstatement of cancelled case numbers by submitting a request to the FHA Resource Center using the Case Reinstatement Request Template.

Case numbers that were automatically cancelled will be reinstated only if JMAC provides evidence that the subject Mortgage closed prior to cancellation of the case number, such as a Settlement Statement or similar legal document.

JMAC must verify the validity of the case number, by completing Case Queries in FHAC at the time of Clear to Close (CTC).

(4) Transferring Case Numbers

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(a) Requirements for the Transferring Mortgagee

The original Mortgagee must assign the case number to the new Mortgagee using the Case Transfer function in [FHAC](#) immediately upon the **Borrower's** request.

(b) Case Number Transfer Involving a Rejected Mortgage

If the transfer involves a rejected Mortgage, the original Mortgagee must complete the Mortgage Credit Reject function in [FHAC](#) prior to transferring the Mortgage.

(c) Case Number Transfer Involving a Sponsored Third-Party Originator

Where a case number is transferred to a new approved Mortgagee or sponsored TPO, the original Mortgagee, its authorized agent, or sponsored TPO that is also an FHA-approved Mortgagee must complete the appropriate sections in [FHAC](#) as described in the FHAC Guide – Case Processing Support Functions.

(5) Ordering Title Commitments

JMAC must order a title commitment to ensure the Property will be properly titled and the Mortgage secured in accordance with FHA requirements.

(6) Ordering Appraisals

JMAC must order a new appraisal for each Mortgage or refinance case number assignment and may not reuse an appraisal that was performed under another case number, even if the prior appraisal is not yet more than 120 Days old.

(a) Appraisal Integrity

JMAC is responsible for identifying any problems or potential problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Appraisers must comply with the Uniform Standards of Professional Appraisal Practice (USPAP), including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing. In appraising any Property for the purpose of obtaining FHA mortgage insurance, the Appraiser must certify that they are capable of performing the appraisal because they have the necessary qualifications and access to all necessary data.

JMAC must ensure that FHA is listed on the appraisal report as an Intended User of the appraisal.

(d) Appraiser Independence

JMAC must ensure it does not compromise the Appraiser's independence.

JMAC may not allow the Appraiser to be selected, retained, managed, or compensated by a mortgage broker or any member of a Mortgagee's staff who is compensated on a commission basis tied to the successful completion of a Mortgage or who is not independent of JMAC's mortgage production staff or processes.

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JMAC must ensure that it does not:

- compensate the Appraiser at a rate that is not commensurate in the market area of the Property being appraised with the assignment type, complexity and scope of work required for the appraisal services performed;
- withhold or threaten to withhold timely payment or partial payment for an appraisal report;
- prohibit the Appraiser from recording the fee paid for the performance of the appraisal in the appraisal report;
- condition the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- provide to the Appraiser, appraisal company, AMC or any Entity or person related to the Appraiser, appraisal company or AMC, stock or other financial or non-financial benefits;
- order, obtain, use, or pay for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a Mortgage financing transaction unless:
 - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such belief is clearly and appropriately noted in the mortgage file; or
 - such appraisal or AVM was completed pursuant to written, pre-established bona fide pre- or post-Disbursement appraisal review or quality control process or underwriting guidelines and JMAC adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value;
- withhold or threaten to withhold future business from an Appraiser, or demote or terminate or threaten to demote or terminate an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- make expressed or implied promises of future business, promotions or increased compensation for an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- allow the removal of an Appraiser from a list of qualified Appraisers or the addition of an Appraiser to an exclusionary list of qualified Appraisers, used by any Entity, without prompt written notice to such Appraiser. The notice must include written evidence of the Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior or other substantive reason for removal;
- request that an Appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- provide to the Appraiser an anticipated, estimated, encouraged or desired value for a subject Property or a proposed, or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase and any addendum must be provided; or
- perform any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, or impartiality, or that violates any applicable law, regulation, or requirement.

(e) Additional Requirements When Ordering an Appraisal

JMAC must provide to the selected Appraiser a complete copy of the subject sales contract including all addendums, land lease, surveys and other legal documents contained in the mortgage file necessary to analyze the Property.

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JMAC must disclose all known information regarding any environmental hazard that is in or on the subject Property, or in the vicinity of the Property, whether obtained from the Borrower, the real estate broker, or any other party to the transaction.

(7) Transferring Existing Appraisals

In cases where a Borrower has switched Mortgagees, the first Mortgagee must, at the Borrower's request, transfer the appraisal to the second Mortgagee within five business days. The Appraiser is not required to provide the appraisal to the new Mortgagee. The client name on the appraisal does not need to reflect the new Mortgagee. If the original Mortgagee has not been reimbursed for the cost of the appraisal, JMAC is not required to transfer the appraisal until it is reimbursed.

The second Mortgagee may not request the Appraiser to re-address the appraisal.

If the second Mortgagee finds deficiencies in the appraisal, they must order a new appraisal.

Where a Mortgagee uses an existing appraisal for a different Borrower, JMAC must enter the new Borrower's information in [FHAC](#). JMAC must collect an appraisal fee from the new Borrower and refund the fee to the original Borrower.

If a Case Transfer is involved, the new Mortgagee must enter the Borrower's information in [FHAC](#). The new Mortgagee must collect an appraisal fee from the Borrower, and send the fee to the original Mortgagee, who, in turn, must refund the fee to the original Borrower.

(8) Ordering Second Appraisal

JMAC is prohibited from ordering an additional appraisal to achieve an increase in value for the Property and/or the elimination or reduction of deficiencies and/or repairs required.

JMAC may order a second appraisal for Mortgages that are in accordance with requirements on [Property Flipping](#).

(a) Second Appraisal by Original Mortgagee

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter (underwriter) determines the first appraisal is materially deficient and the Appraiser is unable or uncooperative in resolving the deficiency. JMAC must fully document the deficiency and status of the appraisal in the mortgage file. JMAC must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. Material deficiencies include, but are not limited to:

- failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- fraudulent statements or conclusions when the Appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.

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(b) Second Appraisal by Second Mortgagee

A second appraisal may only be ordered by the second Mortgagee under the following limited circumstances:

- the first appraisal contains material deficiencies as determined by the underwriter for the second Mortgagee;
- the Appraiser performing the first appraisal is prohibited from performing appraisals for the second Mortgagee; or
- the first Mortgagee fails to provide a copy of the appraisal to the second Mortgagee in a timely manner, and the failure would cause a delay in closing and harm to the Borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

(c) Use of Second Appraisal

For the first two cases outlined above, JMAC must rely only on the second appraisal and ensure that copies of both appraisals are retained in the case binder. For the third case above, the first appraisal must be added to the case binder if it is received.

(d) Required Documentation

JMAC must document why a second appraisal was ordered and retain the explanation and all appraisal reports in the case binder.

b. General Mortgage Insurance Eligibility

i. Mortgage Purpose

FHA offers various mortgage insurance programs which insure approved Mortgagees against losses on Mortgages. FHA-insured Mortgages may be used to purchase housing, improve housing, or refinance existing Mortgages.

(A) Purchase

The Borrower may finance the purchase of an existing one- to four-unit residence.

Properties to be acquired through an **unrecorded** land contract must be treated as a purchase.

(B) Refinance

A refinance transaction is a new Mortgage for a Borrower with **legal title** on the same Property with the proceeds used to pay off any existing liens.

Types of Refinances

FHA insures several different types of refinance transactions:

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1. No cash-out refinances of FHA-insured and non FHA-insured Mortgages are designed to pay existing liens. These include: Rate and Term refinance, Simple Refinance, and Streamline Refinance.
2. Cash-out refinances are designed to pull equity out of the Property.
3. Refinances of non FHA-insured Mortgages are available for qualified Borrowers in negative equity positions (Short Refi). – Available for JMAC serviced loans only

ii. Borrower Eligibility

(A) General Borrower Eligibility Requirements

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section.

A party who has a financial interest in the mortgage transaction, such as the seller, builder or real estate agent, may not be a co-Borrower or a Cosigner. Exceptions may be granted when the party with the financial interest is a Family Member.

(1) Social Security Number

(a) Standard

Each Borrower must provide evidence of their valid SSN to JMAC.

(b) Required Documentation

JMAC must:

- validate and document an SSN for each Borrower, co-Borrower, or Cosigner on the Mortgage by:
 - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through [FHAC](#); and
 - examining the Borrower's original pay stubs, W-2 forms, valid tax returns obtained directly from the IRS, or other document relied upon to underwrite the Mortgage; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during Mortgage processing and underwriting, and
- Process SSN verification through third party verification

(3) Borrower Minimum Decision Credit Score

(a) Definition

The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where three differing scores are reported, the middle score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that score is the MDCS.

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An MDCS is determined for each Borrower. Where the Mortgage involves multiple Borrowers, JMAC must determine the MDCS for each Borrower, and then select the lowest MDCS for all Borrowers.

Where the Mortgage involves multiple Borrowers and one or more of the Borrowers do not have a credit score (non-traditional or insufficient credit), JMAC must select the lowest MDCS of the Borrower(s) with credit score(s).

(b) Eligibility Standard

The Borrower is not eligible for FHA-insured financing if the MDCS is less than 500.

(4) Borrower and Co-Borrower Ownership and Obligation Requirements

To be eligible, all occupying and non-occupying Borrowers and co-Borrowers must take title to the Property in their own name at settlement, be obligated on the Note or credit instrument, and sign all security instruments.

In community property states, the Borrower's spouse is not required to be a Borrower or a Cosigner. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under State Law.

(6) Principal Residence in the United States

Non-occupying co-Borrowers or Cosigners must either be United States (U.S.) citizens or have a Principal Residence in the U.S.

(7) Military Personnel Eligibility

(a) Standard

Borrowers who are military personnel, who cannot physically reside in a Property because they are on Active Duty, are still considered owner occupants and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject Property as their Principal Residence, or the Borrower intends to occupy the subject Property upon discharge from military service.

(b) Required Documentation

JMAC must obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject Property.

JMAC must obtain the Borrower's intent to occupy the subject Property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.

(8) Citizenship and Immigration Status

U.S. citizenship is not required for Mortgage eligibility.

(9) Residency Requirements

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JMAC must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable documentation. In no case is a Social Security card sufficient to prove immigration or work status.

(a) Lawful Permanent Resident Aliens

(i) Standard

A Borrower with lawful permanent resident alien status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

(ii) Required Documentation

The mortgage file must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident alien on the *URLA*.

The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

(b) Non-Permanent Resident Aliens

A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:

- the Property will be the Borrower's Principal Residence;
- the Borrower has a valid SSNthe Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS; and
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, JMAC may assume that continuation will be granted. If there are no prior renewals, JMAC must determine the likelihood of renewal based on information from the USCIS.

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.

Borrowers classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole are not eligible for FHA financing.

(c) Non-U.S. Citizens without Lawful Residency

Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured Mortgages.

(10) Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt

(a) Standard

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JMAC is prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Mortgages.

JMAC is required to determine whether the Borrowers have delinquent federal non-tax debt. JMAC may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

(b) Verification

If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, JMAC must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, JMAC must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured Mortgage until the Borrower resolves the debt with the creditor agency.

JMAC may not deny a Mortgage solely on the basis of CAIVRS information that has not been verified by JMAC. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, JMAC may continue to process the mortgage application.

(c) Resolution

In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

(d) Required Documentation

JMAC must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, JMAC may obtain evidence of resolution by obtaining a clear CAIVRS report.

(11) Eligibility Period for Borrowers Delinquent on FHA-Insured Mortgages

If a Borrower is currently delinquent on an FHA-insured Mortgage, they are ineligible for a new FHA-insured Mortgage unless the delinquency is resolved.

(12) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

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Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments at the time of case number assignment. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

JMAC must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

(b) Verification

JMAC must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

(c) Required Documentation

JMAC must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.

(13) Valid First Liens

JMAC must ensure that the mortgaged Property will be free and clear of all liens, except the insured Mortgage and any secondary liens permitted by FHA regulations at 24 CFR §§ 203.32 and 203.41.

(a) Consent of Non-Borrowing Spouses

If necessary to perfect a valid first lien under state law, JMAC must require a non-borrowing spouse to execute either the security instrument or documentation indicating that they are relinquishing all rights to the Property.

(b) Tax Liens

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments at the time of case number assignment. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The lien holder must subordinate the tax lien to the FHA-insured Mortgage.

(B) Excluded Parties

JMAC must establish that no participants are Excluded Parties and document the determination on form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(1) Borrower

(a) Standard

A Borrower is not eligible to participate in FHA-insured mortgage transactions if they are suspended, debarred, or otherwise excluded from

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participating in HUD programs.

(b) Required Documentation

JMAC must check the HUD [LDP](#) list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

JMAC must check [SAM](#) and follow appropriate procedures defined by that system to confirm eligibility for participation.

The Mortgagee must check the "Yes" box on form [HUD-92900-LT](#) if the Borrower appears on either the LDP or SAM list.

(2) Other Parties to the Transaction

(a) Standard

A Mortgage is not eligible for FHA insurance if anyone participating in the mortgage transaction is listed on HUD's LDP list or in SAM as being excluded from participation in HUD transactions.

(b) Required Documentation

The Mortgagee must check the HUD [LDP](#) list and [SAM](#) and follow appropriate procedures defined by that system to confirm eligibility for all participants involved in the transaction.

iii. Occupancy Types

(A) Principal Residence

(1) Definition

A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

(2) Standard

(a) FHA Requirement for Owner Occupancy

At least one Borrower must occupy the Property within 60 Days of signing the security instrument and intend to continue occupancy for at least one year.

(b) FHA-Insured Mortgages on Principal Residences

FHA will not insure more than one Property as a Principal Residence for any Borrower, except as noted below. FHA will not insure a Mortgage if it is determined that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining Investment Properties, even if the Property to be insured will be the only one owned using FHA mortgage insurance.

Properties previously acquired as Investment Properties are not subject to these restrictions.

(c) Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower

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The table below describes the only circumstances in which a Borrower with an existing FHA-insured Mortgage for a Principal Residence may obtain an additional FHA-insured Mortgage on a new Principal Residence.

Policy Exceptions	Eligibility Requirements
Relocation	<p>A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is:</p> <ul style="list-style-type: none"> • relocating or has relocated for an employment-related reason; and • establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence. <p>If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.</p>
Increase in family size	<p>A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that:</p> <ul style="list-style-type: none"> • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.
Vacating a jointly-owned Property	<p>A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.</p>
Non-occupying co-Borrower	<p>A non-occupying co-Borrower on an existing FHA-insured Mortgage may qualify for an FHA-insured Mortgage on a new Property to be their own Principal Residence.</p>

(3) Required Documentation

The Borrower must indicate on the *URLA* (Fannie Mae Form 1003/ Freddie Mac Form 65) that the Property will be the Borrower's Principal Residence and certify to that fact on form HUD-92900-A, *HUD/VA Addendum to URLA*.

(B) Secondary Residence

(1) Definition

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Secondary Residence refers to a dwelling that a Borrower occupies in addition to their Principal Residence, but less than a majority of the calendar year. A Secondary Residence does not include a Vacation Home.

(2) Standard

Secondary Residences are not eligible for financing.

(C) Investment Property

(1) Definition

An Investment Property refers to a Property that is not occupied by the Borrower as a Principal or Secondary Residence.

(2) Standard

Investment Properties are not eligible for financing except under the FHA Streamline program.

iv. Property Eligibility and Acceptability Criteria

(A) General Property Eligibility

The Property must be located within the continental U.S.

(1) Special Flood Hazard Areas

JMAC must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). JMAC must obtain flood zone determination services, independent of any assessment made by the Appraiser to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within a Coastal Barrier Resource System (CBRS).

(a) Eligibility for Proposed or New Construction in SFHAs

If any portion of the dwelling, related Structures or equipment essential to the value of the Property and subject to flood damage is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless JMAC:

- obtains from FEMA a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA; or

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- obtains a FEMA National Flood Insurance Program Elevation Certificate ([FEMA Form 81-31](#)) prepared by a licensed engineer or surveyor. The elevation certificate must document that the lowest floor including the basement of the residential building, and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria, and insurance under the NFIP is obtained.

(b) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, insurance under the NFIP must be obtained.

(c) Eligibility for Condominiums in SFHAs

JMAC must ensure the Homeowners' Association (HOA) obtains insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(d) Required Flood Insurance Amount

For Properties located within an SFHA, flood insurance must be maintained for the life of the Mortgage in an amount at least equal to the lesser of:

- the Appraiser's estimated replacement cost, less the Appraiser's estimated site value;
- the outstanding balance of the Mortgage; or
- the maximum amount of the NFIP insurance available with respect to the property improvements.

(e) Required Documentation

JMAC must obtain a Life of Loan Flood Certification for all Properties. If applicable, JMAC must also obtain a:

- FEMA Letter of Map Amendment;
- FEMA Letter of Map Revision; or
- FEMA National Flood insurance Program Elevation Certificate ([FEMA 81-31](#)).

(f) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA mortgage insurance if the improvements are or are proposed to be located within the Coastal Barrier Resources System.

(2) Seller Must Be Owner of Record

(a) Standard

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To be eligible for a mortgage insured by FHA, a Property must be purchased from the owner of record. The transaction may not involve any sale or assignment of the sales contract.

(b) Required Documentation

JMAC must obtain documentation verifying that the seller is the owner of record.

Such documentation may include, but is not limited to:

- a property sales history report;
- a copy of the recorded deed from the seller; or
- other documentation, such as a copy of a property tax bill, title commitment, or binder, demonstrating the seller's ownership of the Property and the date it was acquired.

This requirement applies to all FHA purchase money Mortgages, regardless of the time between re-sales.

(3) Restrictions on Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value, often abetted by a Mortgagee's collusion with an Appraiser.

(a) Definition

Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

(b) Standard

(i) Time Restriction on Transfers of Title

The eligibility of a Property for a Mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the Property and the date of execution of the sales contract that will result in the FHA-insured Mortgage.

FHA defines the seller's date of acquisition as the date the seller acquired legal ownership of that Property. FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the Property with an FHA-insured Mortgage.

(ii) Restriction on Re-sales Occurring 90 Days or Fewer After Acquisition

A Property that is being resold 90 Days or fewer following the seller's date of acquisition is not eligible for an FHA-insured Mortgage.

(iii) Re-sales Occurring Between 91 Days and 180 Days After Acquisition

A Mortgagee must obtain a second appraisal by another Appraiser if:

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- the resale date of a Property is between 91 and 180 Days following the acquisition of the Property by the seller; and
- the resale price is 100 percent or more over the price paid by the seller to acquire the Property.

If the second appraisal supports a value of the Property that is more than 5 percent lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value.

The cost of the second appraisal may not be charged to the Borrower.

(iv) Exceptions to Time Restrictions on Resale

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- Re-sales by HUD under its REO program;
- 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 that are acquired by the seller by inheritance;
- sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSE);
- sales of Properties by local and state government agencies; and
- sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

(c) Required Documentation

JMAC must obtain a 12 month chain of title documenting compliance with time restrictions on re-sales.

(4) Restriction on Investment Properties for Hotel and Transient Use

(a) Standard

JMAC must obtain the Borrower's agreement that Investment Properties using FHA-insured financing will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 Days.

(b) Required Documentation

JMAC must obtain a completed form [HUD-92561](#), *Borrower's Contract with Respect to Hotel and Transient Use of Property*, for each Mortgage where the Borrower owns:

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- more than one Dwelling Unit (two to four); or
- a Single Family dwelling that is one of a group of five or more dwellings within a two block radius.

(5) Mixed Use of Property

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space. Mixed Use one- to four-unit Single Family Properties are eligible for FHA insurance, provided:

- a minimum of 75 percent of the entire building square footage is for residential use; and
- the commercial use will not affect the health and safety of the occupants of the residential Property.

(B) Property Types

FHA's programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated, FHA's Single Family programs are limited to one- to four-family Properties that are owner-occupied Principal Residences. FHA insures Mortgages on Real Property secured by:

- detached or semi-detached dwellings
- townhouses or row houses
- individual units within FHA-approved Condominium Projects
- planned unit development (PUD)

JMAC will not permit Single Family Mortgages secured by:

- commercial enterprises
- boarding houses
- hotels, motels and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- vacation homes
- fraternity and sorority houses
- cooperative homes or apartments
- houseboats
- mobile homes
- manufactured homes
- mixed use properties not meeting the criteria as listed in these guidelines
- properties located within within designated Coastal Barrier Resource System (CBRS) areas
- properties located on Tribal Lands or Reservations
- properties used for commercial or industrial purposes
- properties with deed restrictions
- shared lots (including condominiums) with undivided interests
- time shares

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- unimproved land
- working farm, ranch, or orchard

(1) One Unit

A one-unit Property is a one-family dwelling.

(2) Two Unit

A two-unit Property is a Single Family residential Property with two individual dwellings.

JMAC must obtain a completed form [HUD-92561](#), *Borrower's Contract with Respect to Hotel and Transient Use of Property*.

(3) Three to Four Unit

A three- to four-unit Property is a Single Family residential Property with three to four individual dwellings.

JMAC must obtain a completed form [HUD-92561](#).

Self-Sufficiency Rental Income Eligibility

(a) Definition

Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).

(b) Standard

The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.

(c) Calculation

Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.

(4) Condominium Unit

A Condominium Unit is a Property contained in a multi-unit project that has individually-owned Dwelling units, which may be either attached in one or more Structures or detached from each other, and is primarily residential in use.

(a) Standard

A condominium development is created by state or local law and is characterized by fee-simple ownership of a unit, which is defined in the condominium documents, together with common areas. The property interest in these areas is both common and undivided on the part of all unit owners,

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each of whom belongs to the HOA that typically maintains the Property and collects assessments or dues from each unit owner.

A Condominium Project must be FHA approved before a Mortgage on an individual condominium unit can be insured.

(b) Site Condominiums

Site Condominiums are Single Family detached dwellings encumbered by a declaration of condominium covenants or condominium form of ownership and do not need to be FHA-approved.

(C) Property Valuation

JMAC is responsible for obtaining an appraisal to verify the value of the Property and the Property's compliance with HUD's Minimum Property Standards (MPS).

(1) Integrity of Valuation Process: Communications with JMAC

JMAC must ensure the integrity of the valuation process by ensuring the valuation process is free from conflicts of interest and the appearance of conflicts of interest.

(a) Standard

JMAC must prevent its staff, or any person who is compensated on a commission basis upon the successful completion of a Mortgage, or who reports, ultimately, to any officer of JMAC not independent of the mortgage production staff and process, from having substantive communications with an Appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment. Normal communications necessary to processing of a case is permissible, but cannot attempt to influence the Appraiser.

The underwriter who has responsibility for the quality of the appraisal report is allowed to request clarifications and discuss with the Appraiser components of the appraisal that influence its quality.

(2) Communications with Third Parties

The underwriter may request a clarification or reconsideration of value from the Appraiser, following the requirements in [Reconsideration of Value](#). JMAC may not discuss the contents of an appraisal with anyone other than the Borrower.

(3) Verifying HUD's Minimum Property Standards/Minimum Property Requirements

As the on-site representative for JMAC, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which include HUD's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS).

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure.

v. Legal Restrictions on Conveyance (Free Assumability)

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JMAC must determine if there are any legal restrictions on conveyance in accordance with 24 CFR § 203.41.

A Property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible for FHA-insured financing but only when such agreements are free of restrictions that prevent the Borrower from freely transferring the Property.

Such agreements are acceptable, provided they do not cause a conveyance (ownership transfer) of the insured Property by the Borrower to:

- be void, or voidable by a third party;
- be the basis of contractual liability of the Borrower (including rights of first refusal, pre-emptive rights or options related to a Borrower's efforts to convey);
- terminate or be subject to termination all or part of the interest held by the Borrower;
- be subject to the consent of a third party;
- be subject to limits on the amount of sales proceeds a Borrower can retain (e.g., due to a lien, "due on sale" clause, etc.);
- be grounds for accelerating the insured Mortgage; or
- be grounds for increasing the interest rate of the insured Mortgage.

Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations unless they include provisions encumbering the Real Property or restricting the transfer of the Real Property.

Legal restrictions on conveyance of Real Property (i.e., the house) that could require the consent of a third party (e.g., energy provider, system owner, etc.), include but are not limited to, credit approval of a new purchaser before the seller can convey the Real Property, unless such provisions may be terminated at the option of, and with no cost to, the owner.

If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the Property is subject to impermissible legal restrictions and is generally ineligible for FHA insurance.

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2. Allowable Mortgage Parameters

This section provides the basic underwriting standards for Single Family (one to four units) Mortgages insured under the National Housing Act. When underwriting a Mortgage, JMAC must determine the Borrower's creditworthiness, capacity to repay, and available capital to support the Mortgage. JMAC must also examine the Property to ensure it provides sufficient collateral for the Mortgage.

For each Mortgage the Federal Housing Administration (FHA) insures, JMAC must fully comply with the following underwriting procedures.

a. Maximum Mortgage Amounts

A Mortgage that is to be insured by FHA cannot exceed the Nationwide Mortgage Limits, the nationwide area mortgage limit, or the maximum Loan-to-Value (LTV) ratio. The maximum LTV ratios vary depending upon the type of Borrower, type of transaction (purchase or refinance), program type, and stage of construction.

Under most programs, the maximum Mortgage is the lesser of the Nationwide Mortgage Limit for the area, or a percentage of the Adjusted Value.

For purchase transactions, the Adjusted Value is the lesser of:

- purchase price less any inducements to purchase; or
- the Property Value.

For refinance transactions:

- For Properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:
 - the Borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
 - the Property Value.
- Properties acquired by the Borrower within 12 months of case number assignment by inheritance or through a gift from a Family Member may utilize the calculation of Adjusted Value for properties purchased 12 months or greater.
- For properties acquired by the Borrower greater than or equal to 12 months prior to the case number assignment date, the Adjusted Value is the Property Value.

i. National Housing Act's Statutory Limits

The National Housing Act establishes the maximum Mortgage limits and the mortgage amounts for all FHA mortgage insurance programs.

ii. Nationwide Mortgage Limits

Mortgage limits are calculated based on the median house prices in accordance with the statute. FHA's Single Family mortgage limits are set by Metropolitan Statistical Area and county and will be published periodically. FHA's Single Family mortgage limits are available by MSA and county, or by downloading a complete listing. FHA publishes updated limits effective for each calendar year.

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These limits will be set at or between the low cost area and high cost area limits based on the median house prices for the area.

(A) Low Cost Area

The FHA national low cost area mortgage limits, which are currently set at 65 percent of the national conforming limit of \$417,000 for a one-unit Property, are, by property unit number, as follows:

- One-unit: \$271,050
- Two-unit: \$347,000
- Three-unit: \$419,425
- Four-unit: \$521,250

(B) High Cost Area

For areas designated as high cost areas, the maximum FHA-insured mortgage limits (ceiling) by property unit number are as follows:

- One-unit: \$ 625,500
- Two-unit: \$ 800,775
- Three-unit: \$ 967,950
- Four-unit: \$ 1,202,925

(C) Special Exceptions for Alaska, Hawaii, Guam, and the Virgin Islands

Mortgage limits for the special exception areas of Alaska (AK), Hawaii (HI), Guam (GU) and the Virgin Islands (VI) are adjusted by FHA to account for higher costs of construction. These four special exception areas have a higher ceiling as follows:

- One-unit: \$938,250
- Two-unit: \$1,201,150
- Three-unit: \$1,451,925
- Four-unit: \$1,804,375

iii. Financing of Upfront Mortgage Insurance Premium

Unless otherwise stated in this section (Origination through Post-Closing/Endorsement), restrictions to mortgage amounts and LTVs are based upon the amount prior to the financing of the Upfront Mortgage Insurance Premium (UFMIP) (Base Loan Amount).

The total mortgage amount may be increased by the financed UFMIP amount.

iv. Calculating Maximum Mortgage Amounts on Purchases

The maximum mortgage amount that FHA will insure on a specific purchase is calculated by multiplying the appropriate LTV percentage by the Adjusted Value.

In order for FHA to insure this maximum mortgage amount, the Borrower must make a Minimum Required Investment (MRI) of at least 3.5 percent of the Adjusted Value.

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b. Loan-to-Value Limits

The determination of the maximum LTV percentage available is influenced by:

- the particular mortgage insurance program (See [Programs and Products](#)); and
- the transaction type.

JMAC must apply the lowest applicable LTV percentage as determined under the requirements in this section.

i. LTV Limitations Based on Borrower’s Credit Score (Applies to All Transactions)

JMAC must review the credit report to determine the Borrower's Minimum Decision Credit Score (MDCS).

The MDCS will be used to determine the maximum insured financing available to a Borrower with traditional credit.

The table below describes the relationship between the Borrower’s MDCS and the LTV ratio for which they are eligible. Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must be underwritten using the procedures in [Manual Underwriting](#).

If the Borrower’s Minimum Decision Credit Score is...	Then the Borrower is...
at or above 580	eligible for maximum financing.
between 500 and 579	limited to a maximum LTV of 90%. NOT CURRENTLY OFFERED BY JMAC.

ii. Purchase

For purchase transactions, the maximum LTV is 96.5 percent of the Adjusted Value.

For special programs and products including refinances, the maximum LTV is determined in accordance with requirements listed in the [Programs and Products section](#).

(A) LTV Limitations Based on Identities of Interest

(1) Definitions

An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members.

Business Relationship refers to an association between individuals or companies entered into for commercial purposes.

Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

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- child, parent, or grandparent;
 - a child is defined as a son, stepson, daughter, or stepdaughter;
 - a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;
- spouse or domestic partner;
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
- foster child;
- brother, stepbrother;
- sister, stepsister;
- uncle;
- aunt; or
- son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.
- Cousins are NOT considered a family member

(2) Maximum LTV for Identity-of-Interest and Tenant/Landlord Transactions

The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85 percent.

The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85 percent.

(3) Exceptions to the Maximum LTV

The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances.

(a) Family Member Transactions

The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence:

- the Principal Residence of another Family Member; or
- a Property owned by another Family Member in which the Borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required.

(b) Builder's Employee Purchase

The 85 percent LTV restriction may be exceeded if an employee of a builder, who is not a Family Member, purchases one of the builder's new houses or models as a Principal Residence.

(c) Corporate Transfer

The 85 percent LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee.

(d) Tenant Purchase

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The 85 percent LTV restriction may be exceeded if the current tenant purchases the Property where the tenant has rented the Property for at least six months immediately predating the sales contract.

A lease or other written evidence to verify occupancy is required.

(B) LTV Limitations Based on Non-Occupying Borrower Status

(1) Definition

A Non-Occupying Borrower Transaction refers to a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the Property as their Principal Residence.

(2) Maximum LTV for Non-Occupying Borrower Transaction

For Non-Occupying Borrower Transactions, the maximum LTV is 75 percent.

The LTV can be increased to a maximum of 96.5 percent if the Borrowers are Family Members, provided the transaction does not involve:

- a Family Member selling to a Family Member who will be a non-occupying co-Borrower; or
- a transaction on a two- to four-unit Property.

iii. Refinance

For refinance transactions, the maximum LTV is determined in accordance with [Refinance](#) program specific requirements.

iv. New Construction

For New Construction transactions, the maximum LTV is determined in accordance with [New Construction](#) program specific requirements.

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c. Required Investment

i. Total Required Investment

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower's down-payment and the Borrower-paid transaction costs. The Total Required Investment includes the Minimum Required Investment (MRI).

ii. Minimum Required Investment

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the Property.

d. Maximum Mortgage Term

The maximum mortgage term may not exceed 30 years from the date that amortization begins. FHA does not require that mortgage terms be in five year multiples.

e. Mortgage Insurance Premiums

FHA collects a one-time Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium, also referred to as the periodic or monthly MIP, which is collected in monthly installments.

i. Upfront Mortgage Insurance Premium

(A) Upfront Mortgage Insurance Premium Amount

Most FHA mortgage insurance programs require the payment of UFMIP, which may be financed into the Mortgage. The UFMIP is not considered when calculating the area-based [Nationwide Mortgage Limits](#) and LTV limits.

The UFMIP charged for all amortization terms is 175 basis points (bps), unless otherwise stated in the applicable [Programs and Products](#) or in the [MIP chart](#).

The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are added to the total cash settlement requirements.

However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00.

The mortgage amount must be rounded down to the nearest whole dollar amount, regardless of whether the UFMIP is financed or paid in cash.

(B) Refund and Credit of Upfront Mortgage Insurance Premium

The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured Mortgage. See the [Refinances](#) Section.



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ii. Annual (or Periodic) Mortgage Insurance Premium

The periodic MIP is an annual MIP that is payable monthly. The amount of the annual MIP is based on the LTV ratio, Base Loan Amount and the term of the Mortgage.

Calculation of the MIP

The MIP rate and duration of the MIP assessment period vary by mortgage term, Base Loan Amount, and LTV ratio for the Mortgage, as shown in the [MIP chart](#).

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3. Underwriting the Property

JMAC must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured Mortgage. The appraisal and Property must comply with the requirements in [Appraiser and Property Requirements](#). The appraisal must be reported in accordance with [Acceptable Appraisal Reporting Forms and Protocols](#).

a. Property Acceptability Criteria

JMAC must evaluate the appraisal and any supporting documentation to determine if the Property complies with HUD's Property Acceptability Criteria. Existing and New Construction Properties must comply with [Application of Minimum Property Requirements and Minimum Property Standards by Construction Status](#).

i. Defective Conditions

JMAC must evaluate the appraisal in accordance with [Defective Conditions](#) to determine if the Property is eligible for an FHA-insured Mortgage. If defective conditions exist and correction is not feasible, JMAC must reject the Property.

ii. Minimum Property Requirements and Minimum Property Standards

As the on-site representative for JMAC, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which includes HUD's [Minimum Property Requirements \(MPR\) and Minimum Property Standards \(MPS\)](#).

Minimum Property Requirements refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards refer to regulatory requirements relating to the safety, soundness and security of [New Construction](#).

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, JMAC may obtain an inspection from a qualified Entity to make the determination. JMAC must use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS.

JMAC must confirm that the Property complies with the following eligibility criteria.

(A) Encroachment

JMAC must ensure the subject's dwelling, garage, or other improvements do not encroach onto an adjacent Property, right-of-way, utility Easement, or building restriction line. JMAC must also ensure a neighboring dwelling, garage, or other improvements do not encroach onto the subject Property. Encroachment by the subject or adjacent Property fences is acceptable provided such Encroachment does not affect the marketability of the subject Property.

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(B) Overhead Electric Power

JMAC must confirm that any Overhead Electric Power Transmission Lines do not pass directly over any dwelling, Structure or related property improvement, including pools. The power line must be relocated for a Property to be eligible for FHA-insured financing.

The residential service drop line may not pass directly over any pool, spa or water feature.

If the dwelling or related property improvements are located within the Easement area, JMAC must obtain a certification from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and Local Distribution Lines conforms to local standards and is safe.

(C) Access to Property

JMAC must confirm that the Property is provided with a safe pedestrian access and Adequate Vehicular Access from a public or private street. Streets must either be dedicated to public use and maintenance, or retained as private streets protected by permanent recorded Easements.

Private streets, including shared driveways, must be protected by permanent recorded Easements, ownership interest, or be owned and maintained by an HOA. Shared driveways do not require a joint maintenance agreement.

(D) Onsite Hazards and Nuisances

JMAC must require corrective work to mitigate potential adverse effects from any onsite hazards or nuisances reported by the Appraiser.

(E) Abandoned Gas and Oil Well

If the Property contains any abandoned gas or oil wells, JMAC must obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner.

If the Property contains any abandoned petroleum product wells, JMAC must ensure that a qualified petroleum engineer has inspected the Property and assessed the risk, and that the appropriate state authorities have concurred on clearance recommendations.

(F) Requirements for Living Unit

JMAC must confirm that each living unit contains:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water; and

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- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

JMAC must ensure that cabinets and built-in appliances that are considered Real Property are present and operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units.

(G) Swimming Pools

JMAC must confirm that any swimming pools comply with all local ordinances.

(H) Structural Conditions

JMAC must confirm that the Structure of the Property will be serviceable for the life of the Mortgage.

JMAC must confirm that all foundations will be serviceable for the life of the Mortgage and adequate to withstand all normal loads imposed.

(I) Economic Life

JMAC must confirm that the term of the Mortgage is less than or equal to the remaining economic life of the Property.

(J) Environmental

JMAC must confirm that the Property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

(K) Lead-Based Paint

JMAC must confirm that the Property is free of lead paint hazards.

(L) Methamphetamine Contamination

If JMAC or the Appraiser identifies a Property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Property is ineligible due to this environmental hazard until the Property is certified safe for habitation.

(M) Repair Requirements

JMAC must determine which repairs must be made for an existing Property to be eligible for FHA-insured financing.

(N) Utility Services

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If utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body, JMAC must confirm that this information is recorded on the deed record.

(O) Water Supply Systems

(1) Public Water Supply System

JMAC must confirm that a connection is made to a public or Community Water System whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing onsite systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

(2) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, JMAC must ensure that the water quality meets the requirements of the health authority with jurisdiction.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141 and 142.

Soil poisoning is an unacceptable method for treating termites unless JMAC obtains satisfactory assurance that the treatment will not endanger the quality of the water supply.

Requirements for the location of wells for FHA-insured Properties are located in 24 CFR § 200.926d (f) (3).

The following tables provide the minimum distance required between wells and sources of pollution for Existing Construction:

Individual Water Supply System for Minimum Property Requirements for Existing Construction*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject Property line is adjacent to residential Property then local well distance requirements prevail. If the subject Property is adjacent to non-residential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

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The following provides the minimum requirements for water wells:

Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

Water Wells Minimum Property Requirements for Existing Construction	
1	Existing wells must deliver water flow of three to five gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirements of local jurisdiction or the EPA if no local standard

(3) Shared Wells

JMAC must confirm that a Shared Well:

- serves existing Properties that cannot feasibly be connected to an acceptable public or Community Water supply System;
- is capable of providing a continuous supply of water to involved Dwelling Units so that each existing Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);
- provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;

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- has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- serves no more than four living units or Properties.

For both proposed and existing Properties, JMAC must ensure that the shared well agreement complies with the guidance provided in the following table

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joinder by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to “supplied” parties if the “supplying” party has no further need for the shared well system. (“Supplied” parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: <ul style="list-style-type: none"> • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.

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11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
15	Specify required cost sharing for: <ul style="list-style-type: none"> • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection and disinfection; • system component replacement due to wear, obsolescence, incrustation or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party shall be responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: <ul style="list-style-type: none"> • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.

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22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.
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(P) Sewage System

JMAC must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing Onsite Sewage Disposal Systems are acceptable provided they are functioning properly and meet the requirements of the local health department. When the Onsite Sewage Disposal System is not sufficient and an off-site system is available, JMAC must confirm connection to an off-site sewage system.

When the Onsite Sewage Disposal System is not sufficient and an off-site system is not available, JMAC must reject the Property unless the Onsite Sewage Disposal System is repaired or replaced and complies with local health department standards.

(Q) Termites

For existing Properties, JMAC must confirm that the Property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, JMAC must obtain such inspection and evidence of any required treatment to confirm the Property is free of wood destroying insects and organisms.

iii. Minimum Required Repairs

When the appraisal report or inspection from a qualified Entity indicates that repairs are required to make the Property meet HUD's MPR or MPS, JMAC must comply with [Repair Requirements](#).

If repairs for Existing Construction cannot be completed prior to closing, JMAC may establish an escrow account in accordance with Repair Completion Escrow Requirements.

iv. Leased Equipment

JMAC must ensure that the Property Value does not include the value of any equipment, including an energy system, that is not fully owned by the Borrower. JMAC must review the terms of the lease on any equipment to ensure they do not contain any [Legal Restrictions on Conveyance](#) (Free Assumability).

Appraisal Review

JMAC must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the Property.

v. Quality of Appraisal

JMAC must evaluate the appraisal and ensure it complies with the requirements in [Valuation and Reporting Protocols](#), and any additional appraisal requirements that are specific to the subject Property.

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vi. Chain of Title

JMAC must review the appraisal to determine if the subject Property was sold within 12 months prior to the case number assignment date. If the subject Property was sold within the previous 12 months JMAC must review evidence of prior ownership and determine if there are any undisclosed Identity-of-Interest transactions, and for compliance with [Restrictions on Property Flipping](#).

vii. Opinion of Market Value

JMAC must ensure the Market Value of the Property is sufficient to adequately secure the FHA-insured Mortgage.

viii. Reconsideration of Value

The underwriter may request a reconsideration of value when the Appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the Appraiser with all relevant data that is necessary for a reconsideration of value.

The Appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the Borrower, the Borrower must not be held responsible for the additional costs. The effective date of the appraisal is the date the Appraiser inspected the Property.

b. Required Documentation for Underwriting the Property

If additional inspections, repairs or certifications are noted by the appraisal or are required to demonstrate compliance with Property Acceptability Criteria, JMAC must obtain evidence of completion of such inspections, repairs or certifications.

c. Conditional Commitment Direct Endorsement Statement of Appraised Value

The Conditional Commitment Direct Endorsement Statement of Appraised Value ([form HUD-92800.5B](#)) provides the terms upon which the commitment/direct endorsement statement of appraised value is made and the specific conditions that must be met before HUD can endorse a Firm Commitment for mortgage insurance. The underwriter must complete form HUD-92800.5B as directed in the form instructions.

Where a Statement of Appraised Value is required, JMAC must provide the Borrower with a copy of the completed form HUD-92800.5B.

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4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)

a. Underwriting with an Automated Underwriting System

FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard is not an Automated Underwriting System (AUS) but a scorecard that must interface through a system-to-system connection with an AUS.

Each AUS using TOTAL Mortgage Scorecard provides a Feedback Certificate/Finding Report, which documents results of the credit risk evaluation, and identifies the credit report utilized for the scoring event. The Feedback Certificate/Finding Report upon which JMAC makes its underwriting decision prior to endorsement must be included in the case binder.

i. Use of TOTAL Mortgage Scorecard

All transactions must be scored through TOTAL Mortgage Scorecard, except Streamline Refinance transactions and assumptions.

If the Mortgage involves a HUD employee, JMAC must score the transaction through TOTAL. If the file receives an Accept, JMAC must underwrite the transaction in accordance with the guidance in this Underwriting the Borrower Using the TOTAL Mortgage Scorecard section. JMAC must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the [Final Underwriting Decision](#).

ii. Requirements for the Submission of Data through TOTAL Mortgage Scorecard

JMAC must submit data to TOTAL Mortgage Scorecard through an approved AUS vendor in a data format acceptable to the AUS vendor, to meet the requirements described in the TOTAL Mortgage Scorecard Developer's Guide.

iii. Function of TOTAL Mortgage Scorecard

TOTAL Mortgage Scorecard evaluates the overall credit risk posed by the Borrower, based on a number of credit variables, when combined with the functionalities of an AUS.

JMAC may not accept or deny an FHA-insured Mortgage based solely on a risk assessment generated by TOTAL Mortgage Scorecard.

JMAC must ensure full compliance with all FHA eligibility requirements, and all requirements of this section. JMAC must verify the information used to score the Mortgage through TOTAL but does not need to analyze the credit history, unless otherwise stated in this section, if an Accept or Approve recommendation is received.

The underwriter must still underwrite all appraisals according to standard FHA requirements.

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The underwriter must fully underwrite those applications where the AUS issues a Refer.

(A) Automated Underwriting System Data Entry Requirements

(1) Mortgagees

JMAC must verify the integrity of all data elements entered into the AUS to ensure the outcome of the Mortgage credit risk evaluation is valid including:

- Borrower's Credit Report
- Borrower's Liabilities/Debt
- Borrower's Effective Income
- Borrower's Assets/Reserves
- Adjusted Value
- Borrower's total Mortgage Payment including Principal, Interest, Taxes, and Insurance (PITI)

The Borrower's total Mortgage Payment includes:

- Principal and Interest (P&I);
- real estate taxes;
- hazard insurance;
- flood insurance as applicable;
- Mortgage Insurance Premium;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

JMAC may deduct the amount of the Mortgage Credit Certificate or Section 8 Homeownership Voucher if it is paid directly to the servicer.

(2) Sponsored Third-Party Originators

JMAC may permit a sponsored TPO to enter data into the AUS. Both JMAC and its sponsored TPO must ensure and verify all data entered into the AUS. JMAC remains ultimately responsible for ensuring the data entered into the AUS is correct.

JMAC must ensure the Employer Identification Number (EIN) of its sponsored TPO is entered into the AUS. If JMAC is using an AUS that is unable to transmit the sponsored TPO EIN, JMAC must enter "6999609996" in the Lender ID field.

New Versions of (B) TOTAL Mortgage Scorecard

From time to time, FHA will release new versions of TOTAL Mortgage Scorecard.

FHA will announce the date that the new version will be available. All Mortgages being scored for the first time will be scored using the new version. For Mortgages with a case number, the Mortgages will be scored using the version that was effective when the case number was assigned. Existing

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Mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All Mortgages without a case number will be scored using the new version 90 Days after the new version is implemented.

iv. Feedback Certificates: Risk Classification and Related Responsibilities (TOTAL)

If the Feedback Certificate/Finding Report shows an Accept or Approve, it will be referred to as Accept.

(A) Accept/Eligible

If the Feedback Certificate/Finding Report shows an Accept/Eligible recommendation, the Mortgage may be eligible for FHA's insurance endorsement provided JMAC verified that data entered into the AUS is accurate and complete and that the entire mortgage application complies with all FHA requirements.

JMAC must verify that all supporting documentation and information entered into TOTAL Mortgage Scorecard is consistent with the final underwriting decision if the Mortgage receives an Accept/Eligible.

(B) Accept/Ineligible

If the Feedback Certification/Finding Report shows an Accept/Ineligible recommendation, the Borrower's credit and capacity would meet the threshold for approval, but the Mortgage does not fully comply with FHA's eligibility requirements. The Feedback Certificate will identify the specific eligibility requirement that the Mortgage does not meet.

JMAC must analyze the Feedback Certificate and determine if the reason for the ineligibility is one that can be resolved in a manner that complies with FHA underwriting requirements. If JMAC can correct the reason for ineligibility, JMAC may rescore the Mortgage in the AUS.

When the reason for ineligibility cannot be corrected in the AUS, JMAC may underwrite the Mortgage using the following requirements for an Accept Mortgage, but must resolve the reason for ineligibility in accordance with FHA requirements and must provide an explanation of the resolution in the remarks section of form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*.

(C) Refer

The underwriter must manually underwrite any mortgage application for which the Feedback Certificate shows a Refer recommendation or any result other than those described above.

v. Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)

JMAC must downgrade and manually underwrite any Mortgage that received an Accept recommendation if:

- the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;

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- additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
- the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts;
- the date of the Borrower’s bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- the Mortgage Payment history requires a downgrade as defined in [Housing Obligations/Mortgage Payment History](#);
- the Borrower has undisclosed mortgage debt; or
- business income shows a greater than 20 percent decline over the analysis period.

vi. Applicability of Automated Underwriting System Rules (TOTAL)

If a determination is made that the Mortgage must be downgraded to manual underwriting, JMAC must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded Mortgage.

vii. TOTAL Mortgage Scorecard Tolerance Levels for Rescoring

JMAC must rescore a Mortgage when any data element of the Mortgage change and/or new Borrower information becomes available.

JMAC is not required to rescore a Mortgage if the following data elements change from the last scoring event within the described tolerance levels:

When assessing...	Rescore is not required if:
Cash Reserves	Cash Reserves verified are not less than 10% below the previously scored amount
Income	Income verified is not less than 5% below the previously scored amount
Tax and Insurance Escrow	The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the Total Mortgage Payment to Effective Income Ratio (PTI)

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b. Credit Requirements (TOTAL)

i. General Credit Review Requirements (TOTAL)

JMAC must obtain a credit report for each Borrower who will be obligated on the mortgage Note. JMAC may obtain a joint report for individuals with joint accounts.

JMAC must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject Property is located in a community property state.

The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or JMAC must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

ii. Credit Reports (TOTAL)

JMAC must use a traditional credit report. If a traditional credit report is not available or the traditional credit report is insufficient, the Feedback Certificate will show a Refer recommendation, and JMAC must manually underwrite the Mortgage.

JMAC must obtain a Tri-Merged Credit Report (TRMCR) from an independent consumer reporting agency.

(A) Requirements for the Credit Report (TOTAL)

Credit reports must contain all information from all three credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. JMAC must retain copies of all credit reports.

The credit report must include:

- the name of JMAC ordering the report;
- the name, address, and telephone number of the consumer-reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding:
 - bankruptcies
 - Judgments

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- lawsuits
- foreclosures
- tax liens
- for each Borrower debt listed:
 - the date the account was opened
 - high credit amount
 - required payment amount
 - unpaid balance
 - payment history

(B) New Credit Report (TOTAL)

JMAC must obtain a **new credit report** and **rescore the Mortgage through TOTAL** if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report. These inconsistencies may include, but are not limited to the following:

- invalidated disputes
- unreported late payments, or other derogatory items
- new debts
- any other new information not contained in the original credit report that may be conflicting

iii. Evaluating Credit History (TOTAL)

JMAC must analyze the Borrower's credit history in accordance with the [Accept Risk Classifications Requiring a Downgrade to Manual Underwriting](#) section.

If a determination is made that the Mortgage must be downgraded to manual underwriting, JMAC must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded Mortgage.

(A) Collection Accounts, Charge Off Accounts, Accounts with Late Payments in the Previous 24 Months, and Judgments (TOTAL)

JMAC is not required to obtain an explanation of collection accounts, Charge Off Accounts, accounts with late payments, Judgments or other derogatory information.

(B) Disputed Derogatory Credit Accounts (TOTAL)

(1) Definition

Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

Exclusions from cumulative balance include:

- disputed medical accounts; and

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- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, JMAC must include a copy of the police report or other documentation from the creditor to support the status of the accounts.

(2) Standard

If the credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgage must be downgraded to a Refer and manually underwritten.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.

(C) Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (TOTAL)

(1) Definition

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance
- disputed accounts with late payments aged 24 months or greater
- disputed accounts that are current and paid as agreed

(2) Required Documentation and Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, JMAC is not required to downgrade the application to a Refer. However, JMAC must analyze the effect of the disputed accounts on the Borrower's ability to repay the Mortgage. If the dispute results in the Borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than

the amount indicated on the credit report, the Borrower must provide documentation of the lower payments. Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.

(D) Judgments (TOTAL)

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(2) Standard

JMAC must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

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Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments at the time of case number assignment, and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

JMAC must include the payment amount in the agreement in the Borrower's monthly liabilities and debt.

JMAC must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

(3) Required Documentation

JMAC must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

(E) Inaccuracy in Debt Considered (TOTAL)

When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS, JMAC must:

- verify the actual monthly payment amount;
- re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; and
- determine that the additional debt was not/will not be used for the Borrower's Minimum Required Investment (MRI).

(F) Bankruptcy (TOTAL)

(1) Standard

JMAC must document the passage of two years since the discharge date of any bankruptcy. If the bankruptcy was discharged within two years from the date of case number assignment, the Mortgage must be downgraded to a Refer and manually underwritten.

(2) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, JMAC must obtain the bankruptcy and discharge documents.

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(G) Pre-Foreclosure Sales (Short Sales) (TOTAL)

(1) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(2) Standard

JMAC must document the passage of three years since the date of the Short Sale. If the Short Sale occurred within three years of the case number assignment date, the Mortgage must be downgraded to a Refer and manually underwritten.

This three-year period begins on the date of transfer of title by Short Sale.

(3) Required Documentation

If the credit report does not verify the date of the transfer of title by Short Sale, JMAC must obtain the Short Sale documents.

(H) Foreclosure (TOTAL)

(1) Standard

JMAC must manually downgrade to a Refer if the Borrower had a foreclosure in which title transferred from the Borrower within three years of case number assignment.

(2) Required Documentation

If the credit report does not verify the date of the transfer of title through the foreclosure, JMAC must obtain the foreclosure documents.

(I) Deed-in-Lieu of Foreclosure (TOTAL)

(1) Standard

JMAC must manually downgrade to a Refer if the Borrower had a DIL of foreclosure in which title transferred from the Borrower within three years of case number assignment.

(2) Required Documentation

If the credit report does not verify the date of the transfer of title by DIL of foreclosure, JMAC must obtain a copy of the DIL of foreclosure.

(J) Credit Counseling/Payment Plan (TOTAL)

Participating in a consumer credit counseling program does not require a downgrade to a manual underwriting.

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No explanation or other documentation is needed.

(K) Housing Obligations/Mortgage Payment History (TOTAL)

(1) Definition

Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or Properties owned.

A Mortgage Payment is considered delinquent if not paid within the month due.

(2) Late Mortgage Payments for Purchase and No Cash-Out Refinance

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:

- three or more late payments of greater than 30 Days;
- one or more late payments of 60 Days plus one or more 30-Day late payments; or
- one payment greater than 90 Days late.

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

(3) Cash-Out Refinance Transactions

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, reflects:

- a current delinquency; or
- any delinquency within 12 months of the case number assignment date.

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

iv. Evaluating Liabilities and Debts (TOTAL)

JMAC must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios. JMAC must also determine that any recent debts were not incurred to obtain any part of the Borrower's required funds to close on the Property being purchased.

Material Inquiries refer to inquiries which may potentially result in obligations incurred by the Borrower for other Mortgages, auto loans, leases, or other Installment Loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

(A) General Liabilities and Debts (TOTAL)

JMAC must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *Uniform Residential Loan Application (URLA)*, and required documentation.

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All applicable monthly liabilities must be included in the qualifying ratio. **Closed-end debts** do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless JMAC can document that the primary account holder has made all required payments on the account for the previous 12 months.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

JMAC must document that the funds used to pay off debts prior to closing came from an [acceptable source](#), and the Borrower did not incur new debts that were not included in the DTI ratio.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

(B) Undisclosed Debt Other Than a Mortgage (TOTAL)

When a debt or obligation (other than a Mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, JMAC must:

- verify the actual monthly payment amount;
- re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; and
- determine that any funds borrowed were not/will not be used for the Borrower's MRI.

(C) Undisclosed Mortgage Debt (TOTAL)

When a debt or obligation that is secured by a Mortgage not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, JMAC must downgrade to a Refer and manually underwrite the Mortgage.

(D) Federal Debt (TOTAL)

(1) Definition

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

(2) Standard

JMAC must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total debt to income.

(3) Required Documentation

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JMAC must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

(E) Alimony, Child Support, and Maintenance (TOTAL)

(1) Definition

Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments.

(2) Standard

For Alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in JMAC's calculation of the Borrower's gross income, JMAC must include the monthly obligation in the calculation of the Borrower's debt.

Child Support and Maintenance are to be treated as a recurring liability and JMAC must include the monthly obligation in the Borrower's liabilities and debt.

(3) Required Documentation

JMAC must verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

JMAC must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.

(4) Calculation of Monthly Obligation

JMAC must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(F) Non-Borrowing Spouse Debt in Community Property States (TOTAL)

(1) Definition

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

(2) Standard

If the Borrower resides in a community property state or the Property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios.

The non-borrowing spouse's credit history is **not** considered a reason to deny a mortgage application.

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(3) Required Documentation

JMAC must verify and document the debt of the non-borrowing spouse.

JMAC must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

JMAC must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be included in the liabilities. The credit report for the non-borrowing spouse is for the purpose of establishing debt only, and is not submitted to TOTAL Mortgage Scorecard for the purpose of credit evaluation.

The credit report for the non-borrowing spouse may be traditional or nontraditional.

(G) Deferred Obligations (TOTAL)

(1) Definition

Deferred Obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(2) Standard

JMAC must include deferred obligations in the Borrower's liabilities.

(3) Required Documentation

JMAC must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. JMAC must obtain evidence of the anticipated monthly payment obligation, if available.

(4) Calculation of Monthly Obligation

JMAC must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, JMAC must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

For a student loan, if the actual monthly payment is zero or is not available, JMAC must utilize 2 percent of the outstanding balance to establish the monthly payment.

(H) Installment Loans (TOTAL)

(1) Definition

Installment Loans refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

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JMAC must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's debts.

If the credit report does not include a monthly payment for the loan, JMAC must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, JMAC must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

(I) Revolving Charge Accounts (TOTAL)

(1) Definition

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(2) Standard

JMAC must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, JMAC must use the payment shown on the current account statement or 5 percent of the outstanding balance.

(3) Required Documentation

JMAC must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, JMAC must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

(J) 30-Day Accounts (TOTAL)

(1) Definition

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

(2) Standard

JMAC must verify the Borrower paid the outstanding balance in full on **every** 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the

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Borrower's DTI. If the credit report reflects any late payments in the last 12 months, JMAC must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

JMAC must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. JMAC must use the credit report to document the balance, and must document that funds are available to pay off the balance in excess of the funds and Reserves required to close the Mortgage.

(K) Contingent Liabilities (TOTAL)

(1) Definition

A Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

(2) Standard

JMAC must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless JMAC verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments.

(3) Calculation of Monthly Obligation

JMAC must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(4) Required Documentation

(a) Mortgage Assumptions

JMAC must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, JMAC must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

(c) Court Ordered Divorce Decree

JMAC must obtain a copy of the divorce decree ordering the spouse to make payments.

(L) Collection Accounts (TOTAL)

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(1) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(2) Standard

If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of \$2,000 or greater, JMAC must:

- verify that the debt is paid in full at the time of or prior to settlement using acceptable [sources of funds](#);
- verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the Borrower's DTI; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI.

Collection accounts of a non-borrowing spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless excluded by state law.

(3) Required Documentation

JMAC must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement.

If JMAC uses 5 percent of the outstanding balance, no documentation is required.

(M) Charge Off Accounts (TOTAL)

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.

(N) Private Savings Clubs (TOTAL)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool

(2) Standard

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If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrower's total debt.

JMAC must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

(3) Required Documentation

JMAC must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(O) Business Debt in Borrower's Name (TOTAL)

(1) Definition

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless JMAC can document that the debt is being paid by the Borrower's business for the most recent 12 months, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(3) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, JMAC must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash flow analysis of the Borrower's business.

(P) Obligations Not Considered Debt (TOTAL)

Obligations not considered debt include:

- medical collections
- federal, state, and local taxes, if not delinquent and no payments are required
- automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- collateralized loans secured by depository accounts
- utilities
- child care
- commuting costs
- union dues

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- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

c. Income Requirements (TOTAL)

Definition of Effective Income (TOTAL)

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage.

Effective Income must be reasonably likely to continue through at least the first three years of the Mortgage, and meet the specific requirements described below.

Income trends must be analyzed, and be considered stable. Declining trends must be carefully analyzed, and must document how the income was determined to be stable. Declining income trends require the use of the most conservative approach when calculating effective income.

i. General Income Requirements (TOTAL)

JMAC must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

JMAC may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

ii. Employment Related Income (TOTAL)

(A) Definition

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

(B) Standard

JMAC may use Employment related Income as Effective Income in accordance with the standards provided for each type of Employment related Income

(C) Required Documentation

For all Employment related Income, JMAC must verify the Borrower's most recent two years of employment and income, and document using one of the following methods.

(1) Traditional Current Employment Documentation

JMAC must obtain the most recent pay stub and one of the following to verify current employment:

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- a written Verification of Employment (VOE) covering two years; or
- an electronic verification acceptable to FHA.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal re-verification of employment is acceptable.

(2) Alternative Current Employment Documentation

If using alternative documentation, JMAC must:

- obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal re-verification of employment is acceptable.

(3) Past Employment Documentation

Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime or Bonus Income).
- The Borrower executes [IRS Form 4506](#), *Request for Copy of Tax Return*,

[IRS Form 4506-T](#), *Request for Transcript of Tax Return*, or [IRS Form 8821](#), *Tax Information Authorization*, for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then JMAC must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)
- VOE(s)
- electronic verification acceptable to FHA
- evidence supporting enrollment in school or the military during the most recent two full years

iii. Primary Employment (TOTAL)

(A) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

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(B) Standard

JMAC may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, JMAC must use the current salary to calculate Effective Income.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, JMAC must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, JMAC must average the income over the previous two years. If JMAC can document an increase in pay rate JMAC may use the most recent 12-month average of hours at the current pay rate.

iv. Part-Time Employment (TOTAL)

(A) Definition

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

(B) Standard

JMAC may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

(C) Calculation of Effective Income

JMAC must average the income over the previous two years. If JMAC can document an increase in pay rate JMAC may use a 12-month average of hours at the current pay rate.

v. Overtime and Bonus Income (TOTAL)

(A) Definition

Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(B) Standard

JMAC may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

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Periods of Overtime and Bonus Income less than two years may be considered Effective Income if JMAC documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(C) Calculation of Effective Income

For employees with Overtime or Bonus Income, JMAC must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, JMAC must use the current year's income.

vi. Seasonal Employment (TOTAL)

(A) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(B) Standard

JMAC may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. JMAC may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

(C) Required Documentation

For seasonal employees with unemployment income, JMAC must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

(D) Calculation of Effective Income

For employees with Employment Income from Seasonal Employment, JMAC must average the income earned over the previous two full years to calculate Effective Income.

vii. Employer Housing Subsidy (TOTAL)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

JMAC may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

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JMAC must verify and document the existence and the amount of the housing subsidy, and provide evidence of receipt of this allowance for at least 12 months. History of receipt is not required for borrowers with active Military allowances (BAH).

(D) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, JMAC may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment. Must use the lessor of the current rate or the 12 month average.

viii. Employed by Family-Owned Business (TOTAL)

(A) Definition

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

(B) Standard

JMAC may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business, and the borrower has a two year history of receiving the income from this source.

(C) Required Documentation

JMAC must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or [Schedule K-1 \(IRS Form 1065\)](#), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, JMAC must obtain copies of signed personal tax returns or tax transcripts.

(D) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, JMAC must use the current salary to calculate Effective Income, as long as it is supported by the prior years earnings.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, JMAC must consider the Borrower's current hourly rate to calculate Effective Income, as long as it is supported by the prior years earnings.

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For employees who are paid hourly and whose hours vary, JMAC must average the income over the previous two years.

ix. Commission Income (TOTAL)

(A) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(B) Standard

JMAC may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

(C) Required Documentation

For Commission Income less than or equal to 25 percent of the Borrower's total earnings, JMAC must use traditional or alternative employment documentation.

For Commission Income greater than 25 percent of the Borrower's total earnings, JMAC must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed tax returns from the Borrower, JMAC may obtain a signed [IRS Form 4506](#), *Request for Copy of Tax Return*, [IRS Form 4506-T](#), *Request for Transcript of Tax Return*, or [IRS Form 8821](#), *Tax Information Authorization*, and tax transcripts directly from the IRS.

(D) Calculation of Effective Income

JMAC must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. JMAC must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

JMAC must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review Analyzing IRS Forms.

x. Self-Employment Income (TOTAL)

(A) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;

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- limited liability or “S” corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

JMAC may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, JMAC may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years. Previous education is not acceptable for documenting prior history.

(2) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, JMAC must downgrade and manually underwrite. Refer to Self-Employment Income (Manual) for required analysis.

Any decline in Effective Income, regardless of the percentage must be properly addressed by the D.E. Underwriter, and stability must be documented.

(C) Required Documentation

(1) Individual and Business Tax Returns

JMAC must obtain complete individual federal income tax returns for the most recent two years, including all schedules.

(2) Profit & Loss Statements and Balance Sheets

JMAC must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two year average of tax returns, an **audited** P&L or signed quarterly tax return must be obtained from the IRS.

(D) Calculation of Effective Income

JMAC must analyze the Borrower’s tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Analyzing IRS Forms.

JMAC must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or

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- the average gross Self-Employment Income earned over the previous one year.

xi. Additional Required Analysis of Stability of Employment Income (TOTAL)

(A) Frequent Changes in Employment

If the Borrower has changed jobs more than three times in the previous 12-month period, or has changed lines of work, JMAC must take additional steps to verify and document the stability of the Borrower's Employment Income. JMAC must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), JMAC may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

(C) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, JMAC may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, JMAC may use the Borrower's pre-leave income.

For Borrowers returning to work after the first Mortgage Payment due date, JMAC may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work. Transactions involving borrowers returning to work after the first Mortgage Payment due date require management review, and approval.

Required Documentation

JMAC must provide the following documentation for Borrowers on temporary leave:

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- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with [Sources of Funds](#), used to supplement the Borrower's income through intended date of return to work with current employer.

xii. Other Sources of Effective Income (TOTAL)

(A) Disability Benefits (TOTAL)

(1) Definition

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

(2) Required Documentation

JMAC must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. JMAC must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.

If the Notice of Award or equivalent document does not have a defined expiration date, JMAC may consider the income effective and reasonably likely to continue. JMAC may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may JMAC inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(a) Social Security Disability

For Social Security Disability income, including Supplemental Security Income (SSI), JMAC must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's [form SSA-1099/1042S](#), *Social Security Benefit Statement*.

(b) VA Disability

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For VA disability benefits, JMAC must obtain [VA Form 26-8937, Verification of VA Benefits](#), showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

(c) Private Disability

For private disability benefits, JMAC must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(3) Calculation of Effective Income

JMAC must use the most recent amount of benefits received to calculate Effective Income.

(B) Alimony, Child Support, and Maintenance Income (TOTAL)

(1) Definition

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.

(2) Required Documentation

JMAC must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, JMAC must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

JMAC must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

JMAC must provide evidence that the claimed income will continue for at least three years. JMAC may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

(3) Calculation of Effective Income

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, JMAC may use the current payment to calculate Effective Income.

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When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, JMAC may use the current payment to calculate Effective Income.

If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, JMAC must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, JMAC must use the average over the time of receipt.

(C) Military Income (TOTAL)

(1) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

JMAC may not use military education benefits as Effective Income.

(2) Required Documentation

JMAC must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). JMAC must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service, and provides a statement from the Commanding Officer confirming the borrower's eligibility for continued service.

(3) Calculation of Effective Income

JMAC must use the current amount of Military Income received to calculate Effective Income.

(E) Section 8 Homeownership Vouchers (TOTAL)

(1) Definition

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

(2) Required Documentation

JMAC must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. JMAC may consider that this income is reasonably likely to continue for three years.

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(3) Calculation of Effective Income

JMAC may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment.

JMAC must use the current subsidy rate to calculate the Effective Income.

(F) Other Public Assistance (TOTAL)

(1) Definition

Public Assistance refers to income received from government assistance programs.

(2) Required Documentation

JMAC must verify and document the income received from the government agency.

If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, JMAC may consider the income effective and reasonably likely to continue.

(3) Calculation of Effective Income

JMAC must use the current rate of Public Assistance received to calculate Effective Income.

(G) Automobile Allowances (TOTAL)

(1) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(2) Required Documentation

JMAC must verify and document the Automobile Allowance received from the employer for the previous two years.

JMAC must also obtain [IRS Form 2106](#), *Employee Business Expenses*, for the previous two years.

(3) Calculation of Effective Income

JMAC must determine the portion of the allowance that can be considered Effective Income.

JMAC must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.

If the Borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:

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- the Borrower's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

(H) Retirement Income (TOTAL)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(1) Social Security Income (TOTAL)

(a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, JMAC must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's [form SSA-1099/1042S](#), *Social Security Benefit Statement*.

In addition to verification of income, JMAC must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income or (2) an equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, JMAC must consider the income effective and reasonably likely to continue. JMAC may not request additional documentation from the Borrower to demonstrate continuance of Social Security Administration income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date. **(c) Calculation of Effective Income**

JMAC must use the current amount of Social Security Income received to calculate Effective Income.

(2) Pension (TOTAL)

(a) Definition

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Pension refers to income received from the Borrower's former employer(s).

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

JMAC must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's Pension/retirement letter from the former employer.

(c) Calculation of Effective Income

JMAC must use the current amount of Pension income received to calculate Effective Income.

(3) Individual Retirement Account and 401(k) (TOTAL)

(a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

JMAC must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, JMAC must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, JMAC must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, JMAC must use the average over the time of receipt.

The borrower must have an established, and continual distribution plan. At-will withdrawals from a retirement account may not be considered Effective Income.

(I) Rental Income (TOTAL)

(1) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

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(2) Rental Income Received from the Subject Property (TOTAL)

(a) Standard

JMAC may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

Rental Income from the subject Property may be considered Effective Income when the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.

(b) Required Documentation

Documentation varies depending upon the length of time the Borrower has owned the Property.

(i) Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

Two to Four-Units

JMAC must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

One Unit

JMAC must verify and document the proposed Rental Income by obtaining a [Fannie Mae Form 1004/Freddie Mac Form 70](#), *Uniform Residential Appraisal Report*; [Fannie Mae Form 1007](#)/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*; and [Fannie Mae Form 216/Freddie Mac Form 998](#), *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

(ii) History of Rental Income

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, JMAC must verify and document the existing Rental Income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two years.

For Properties with less than two years of Rental Income history, JMAC must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.

(c) Calculation of Effective Income

JMAC must add the net subject property Rental Income to the Borrower's gross income. JMAC may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

(i) Limited or No History of Rental Income

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To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, JMAC must use the lesser of:

- the monthly operating income reported on [Freddie Mac Form 998](#); or
- 75 percent of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

(ii) History of Rental Income

JMAC must calculate the Rental Income by averaging the amount shown on Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, JMAC must annualize the Rental Income for the length of time the Property has been owned.

(3) Rental Income from Other Real Estate Holdings (TOTAL)

(a) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. JMAC must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.

(b) Required Documentation

(i) Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, JMAC must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

JMAC must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025](#)/[Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

One Unit

JMAC must verify and document the proposed Rental Income by obtaining a [Fannie Mae Form 1004](#)/[Freddie Mac Form 70](#), *Uniform Residential Appraisal Report*, [Fannie Mae Form 1007](#)/[Freddie Mac Form 1000](#), *Single Family Comparable Rent Schedule*, and [Fannie Mae Form 216](#)/[Freddie Mac](#)

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[Form 998](#), *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

(ii) History of Rental Income

JMAC must obtain the Borrower's last two years' tax returns with Schedule E.

(c) Calculation of Effective Net Rental Income

(i) Limited or No History of Rental Income

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, JMAC must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:

- the monthly operating income reported on [Freddie Mac Form 998](#); or
- 75 percent of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

(ii) History of Net Rental Income

JMAC must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.

Depreciation shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, JMAC must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two years of Rental Income history, JMAC must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

(4) Borders of the Subject Property (TOTAL)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(b) Standard

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.

(c) Required Documentation

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JMAC must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, JMAC must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

JMAC must calculate the Effective Income by using the lesser of the two year average or the current lease.

(J) Investment Income (TOTAL)

(1) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(2) Required Documentation

JMAC must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

(3) Calculation of Effective Income

JMAC must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

JMAC must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

(K) Capital Gains and Losses (TOTAL)

(1) Definition

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

(2) Standard

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

(3) Required Documentation

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Three years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as Effective Income; or
- consistently shows a loss, it must be deducted from the total income.

(L) Expected Income (TOTAL)

(1) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(2) Standard

JMAC may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(3) Required Documentation

JMAC must verify and document the existence and amount of Expected Income with the employer in writing and that it is **guaranteed** to begin within 60 Days of mortgage closing. Any new job should have a non-revocable binding agreement in order to determine that the expected employment is guaranteed.

For expected Retirement Income, JMAC must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. JMAC must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

(M) Trust Accounts (TOTAL)

(1) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(2) Required Documentation

JMAC must verify and document the existence of the Trust Agreement or other trustee statement. JMAC must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

JMAC must verify that regular payments will continue for at least the first three years of the mortgage term.

(3) Calculation of Effective Income

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JMAC must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(N) Annuities or Similar (TOTAL)

(1) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(2) Required Documentation

JMAC must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Mortgage. JMAC must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

The borrower must have an established, and continual distribution plan. At-will withdrawals from an annuity may not be considered Effective Income.

(3) Calculation of Effective Income

JMAC must use the current rate of the annuity to calculate Effective Income.

JMAC must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.

(O) Notes Receivable Income (TOTAL)

(1) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

(2) Required Documentation

JMAC must verify and document the existence of the Note. JMAC must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, JMAC must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, JMAC must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(P) Non-Taxable Income (Grossing Up) (TOTAL)

(1) Definition

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Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

JMAC must document and support the amount of income to be Grossed Up for any Non-Taxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(3) Calculation of Effective Income

The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income.

The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, JMAC may Gross Up the Non-Taxable Income by 15 percent.

JMAC may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

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d. Asset Requirements (TOTAL)

i. General Asset Requirements (TOTAL)

JMAC may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI.

(A) Earnest Money Deposit (TOTAL)

JMAC must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's cancelled check;
- certification from the deposit-holder acknowledging receipt of funds; or
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, JMAC must verify that the gift is in compliance with [Gifts \(Personal and Equity\) \(TOTAL\)](#).

(B) Cash to Close (TOTAL)

JMAC must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing.

JMAC must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(1) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount.

(2) Mortgagee Responsibility for Estimating Settlement Requirements

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

(a) Origination Fees and Other Closing Costs

JMAC or sponsored TPO may charge a reasonable origination fee.



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JMAC or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Mortgage.

Charges may not exceed the actual costs.

JMAC must comply with HUD's Qualified Mortgage Rule at 24 CFR § 203.19.

(b) Discount Points

Discount Points refer to a charge from JMAC for the interest rate chosen. They are paid by the Borrower and become part of the total cash required to close.

(c) Types of Prepaid Items (Including Per Diem Interest)

Prepaid items may include flood and hazard insurance premiums, MIPs, real estate taxes, and per diem interest. They must comply with the requirements of the [CFPB](#).

(d) Non-Realty or Personal Property

Non-Realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

(e) Upfront Mortgage Insurance Premium Amounts

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00.

(f) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

(g) Repairs and Improvements

Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements.

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to a credit from a Mortgagee for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation.

The funds derived from a premium priced Mortgage:

- must be disclosed in accordance with RESPA;

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- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

(i) Interested Party Contributions on the Settlement Statement

JMAC may apply Interested Party credits to the closing costs and prepaid items including any items Paid Outside Closing (POC).

The refund of the Borrower's POCs may be used toward the Borrower's MRI if JMAC documents that the POCs were paid with the Borrower's own funds.

JMAC must identify the total Interested Party credits on the front page of the Settlement Statement or similar legal document or in an addendum. JMAC must identify each item paid by Interested Party Contributions.

(C) Reserves (TOTAL)

JMAC must verify and document all assets submitted to the AUS.

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- equity in another Property; or
- borrowed funds from any source.

Required Reserves for Three- to Four-Unit Properties

JMAC must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties.

ii. Source Requirements for the Borrower's Minimum Required Investment (TOTAL)

(A) Definition

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the Property.

(B) Standard

JMAC may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

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- (1) the seller of the Property;
- (2) any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

iii. Sources of Funds (TOTAL)

JMAC must verify liquid assets for cash to close and Reserves as indicated.

(A) Checking and Savings Accounts (TOTAL)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

JMAC must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, JMAC must obtain documentation of the deposits. JMAC must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

(a) Traditional Documentation

JMAC must obtain a written VOD and the Borrower's most recent statement for each account.

(b) Alternative Documentation

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, JMAC must obtain statement(s) for the most recent two months.

(B) Cash on Hand (TOTAL)

(1) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

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Cash on hand is not an acceptable source of funds.

(C) Retirement Accounts (TOTAL)

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

JMAC may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

(3) Required Documentation

JMAC must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(D) Stocks and Bonds (TOTAL)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

JMAC must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, JMAC must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless JMAC verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

JMAC must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account JMAC must obtain a copy of each stock or bond certificate.

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(E) Private Savings Clubs (TOTAL)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

JMAC may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

JMAC must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. JMAC must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

JMAC must obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.

(F) Gifts (Personal and Equity) (TOTAL)

(1) Definition

Gifts refer to the contributions of cash or equity with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization;
- a governmental agency or public Entity that has a program providing homeownership assistance to:
 - low or moderate income families; or
 - first-time homebuyers.

Any gift of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(b) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

(3) Required Documentation

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JMAC must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

JMAC must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.

a. If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.

b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.

If the gift funds are paid directly to the settlement agent, JMAC must verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source by a review of the donor's bank statement.

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, JMAC must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

JMAC and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

Regardless of when gift funds are made available to a Borrower, JMAC must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a gift on Property being sold to other Family Members.

(b) Required Documentation

JMAC must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and

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- a statement that no repayment is required.

(G) Interested Party Contributions (TOTAL)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs and discount points. The 6 percent limit also includes:

- Interested Party payment for permanent and temporary interest rate buy-downs and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution.

(3) Required Documentation

JMAC must document the total Interested Party Contributions on form [HUD-92900-LT](#), Settlement Statement or similar legal document, and the sales contract.

(H) Inducements to Purchase (TOTAL)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the purchase price;
- contributions exceeding the origination fees, other closing costs and discount points;
- decorating allowances;

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- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (TOTAL)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

(2) Sales Commission (TOTAL)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (TOTAL)

Rent may be an inducement to purchase when the sales agreement reveals that the Borrower has been living in the Property rent-free or has an agreement to occupy the Property at a rental amount considerably below fair market rent.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Down-payment Assistance Programs (TOTAL)

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JMAC maintains a list of approved DPA's, and must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

FHA also does not allow nonprofit entities to provide gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a gift that is to be used for all, or part, of a Borrower's down-payment, and the organization providing the gift loses or gives up its federal tax-exempt status, FHA will recognize the gift as an acceptable source of the down-payment provided that:

- the gift is made to the Borrower;
- the gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Down-payment Assistance Provider is a Charitable Organization

JMAC is responsible for ensuring that an Entity providing down-payment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the [IRS Exempt Organization Select Check](#), which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (TOTAL)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt. New secondary financing is not permitted by JMAC Lending, but existing subordinate financing may remain in place if within applicable CLTV limits. Refer to the Refinance section of this handbook for additional details.

(K) Loans (TOTAL)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

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(1) Collateralized Loans (TOTAL)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. JMAC must reduce the amount of the corresponding asset by the amount of the collateralized loan.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(d) Required Documentation

JMAC must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (TOTAL)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

JMAC must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

JMAC must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

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(3) Disaster Relief Loans (TOTAL)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA insured Mortgage, and meet the requirements for [Secondary Financing provided by Governmental Entities](#).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

JMAC must verify and document the promissory Note.

(L) Grants (TOTAL)

(1) Disaster Relief Grants (TOTAL)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (TOTAL)

(a) Definition

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of Down-payment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a gift or grant even if it does not require regular payments or has other features forgiving the debt.

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(b) Standard

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(c) Required Documentation

JMAC must verify and document the Borrower's receipt of the grant and terms of use.

JMAC must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (TOTAL)

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

JMAC may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, JMAC must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

JMAC must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

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(b) Employer Assistance Plans

JMAC must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, JMAC must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (TOTAL)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

(2) Standard

JMAC must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain funds for closing.

JMAC must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. Cash received for the sale of personal property is not acceptable. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(O) Trade-In of Manufactured Housing (TOTAL)

(1) Definition

Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

JMAC must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. JMAC must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (TOTAL)

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(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

JMAC must verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or similar legal document.

JMAC must also verify and document that the transaction was arm's length, and that the Borrower is entitled to the net sale proceeds.

(Q) Sale of a Subject Property (TOTAL)

(1) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

(2) Standard

JMAC may consider Real Estate Commissions from the Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a gift, in compliance with standard gift requirements.

(3) Required Documentation

JMAC must verify and document that the Borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from Sale of Subject Property being purchased.

(R) Rent Credits (TOTAL)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

JMAC may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MRI.

(3) Required Documentation



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JMAC must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

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e. Final Underwriting Decision (TOTAL)

JMAC may approve the Mortgage as eligible for FHA insurance endorsement if:

- TOTAL Mortgage Scorecard rated the mortgage application as Accept;
- the underwriter underwrote the appraisal according to standard FHA requirements;
- JMAC reviewed the TOTAL Mortgage Scorecard findings, and verified that all information entered into TOTAL Mortgage Scorecard is consistent with mortgage documentation, and is true, complete, and accurate; and
- the Mortgage meets all FHA requirements applicable to Mortgages receiving a rating of Accept from TOTAL Mortgage Scorecard.

While TOTAL Mortgage Scorecard is available for JMAC to use in their prequalification process of mortgage applicants, JMAC must score the Mortgage at least once after assignment of an FHA case number. FHA will not recognize the risk assessment nor will information be carried from TOTAL Mortgage Scorecard to FHAC for endorsement processing, without an FHA case number. It is imperative that JMACs make certain that they enter the FHA case number into their Loan Origination System or AUS as soon as it is known. This will ensure a more efficient endorsement process.

i. Documentation of Final Underwriting Review Decision (TOTAL)

JMAC must complete the following documents to evidence their final underwriting decision.

(A) Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary

On form [HUD-92900-LT](#), JMAC must:

- indicate the CHUMS ID of the underwriter who reviewed the appraisal;
- complete the Risk Assessment; and
- enter the identification of "ZFHA" in the CHUMS ID.

When the Feedback Certificate indicates "Accept/Ineligible," JMAC must document the circumstances or other reasons that were evaluated in making the decision to approve the Mortgage in the Remarks section.

(B) Conditional Commitment Direct Endorsement

Statement of Appraised Value

The underwriter must confirm that form [HUD-92800.5B](#) is completed as directed in the form instructions.

(C) Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application

The underwriter must complete form [HUD-92900-A](#) as directed in the form instructions.

An authorized officer of JMAC Lending, Inc., LLC, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.



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ii. Conditional Approval (TOTAL)

JMAC must condition the approval of the Borrower on the completion of the final *URLA* ([Fannie Mae Form 1003/Freddie Mac Form 65](#)) and form [HUD-92900-A](#).

iii. HUD Employee Mortgages (TOTAL)

If the Mortgage involves a HUD employee, JMAC must condition the Mortgage on its approval by HUD. JMAC must submit the case binder to the Processing and Underwriting Division Director at the [Jurisdictional HOC](#) for final underwriting approval.

iv. Notification of Borrower of Approval and Term of the Approval (TOTAL)

JMAC must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

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5. Manual Underwriting of the Borrower

JMAC must manually underwrite those applications where the AUS issues a Refer or applications which were downgraded to a manual underwrite.

If a Mortgage receiving the AUS Refer or downgrade to manual processing involves a HUD employee, JMAC must underwrite the transaction in accordance with the guidance in this Manual Underwriting section. JMAC must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the [Jurisdictional HOC](#) for [final underwriting approval](#).

a. Credit Requirements (Manual)

i. General Credit Requirements (Manual)

FHA's general credit policy requires JMAC to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

JMAC must either obtain a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

JMAC must utilize the same credit report and credit scores sent to TOTAL. If an updated credit report is received, it must be scored by TOTAL regardless of existing or anticipated Scorecard decision.

JMAC must obtain a credit report for each Borrower who will be obligated on the mortgage Note. JMAC may obtain a joint report for individuals with joint accounts.

JMAC must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject Property is located in a community property state. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or JMAC must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

ii. Types of Credit History (Manual)

If a traditional credit report is available, JMAC must use a traditional credit report. However, if a traditional credit report is not available, JMAC must develop the Borrower's credit history using the requirements for [Non-Traditional and Insufficient Credit](#).

(A) Traditional Credit (Manual)

If the TRMCR or RMCR generates a credit score, JMAC must utilize traditional credit history.

(1) Requirements for the Credit Report

Credit reports must obtain all information from all three credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format;

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and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. JMAC must retain copies of all credit reports.

The credit report must include:

- the name of JMAC ordering the report;
- the name, address, and telephone number of the consumer-reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding:
 - bankruptcies;
 - Judgments;
 - lawsuits;
 - foreclosures; and
 - tax liens; and
- for each Borrower debt listed:
 - the date the account was opened;
 - high credit amount;
 - required monthly payment amount;
 - unpaid balance; and
 - payment history.

(2) Updated Credit Report or Supplement to the Credit Report

JMAC must obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

(3) Credit Information Not Listed on Credit Report

A Mortgagee must develop credit information separately for any open debt listed on the mortgage application but not referenced in the credit report by using the procedures for [Independent Verification of Non-Traditional Credit Providers](#).

(4) Specific Requirements for Residential Mortgage Credit Report

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the Borrower's employment history;
- verify each Borrower's current employment and income through an interview with the Borrower's employer or explain why such an interview was not completed;

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- contain a statement attesting to the certification of employment for each Borrower and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

(B) Non-Traditional and Insufficient Credit (Manual)

For Borrowers without a credit score, JMAC must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below. JMAC DOES NOT CURRENTLY PERMIT NON-TRADITIONAL CREDIT. THIS SECTION IS FOR REFERENCE ONLY.

(1) Non-Traditional Mortgage Credit Report

(a) Definition

An NTMCR is designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report and used either as:

- a substitute for a TRMCR or an RMCR; or
- a supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

(b) Standard

JMAC may use a NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the Borrower; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the:

- creditor's name;
- date of opening;
- high credit;
- current status of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (for example, 0x30 and 0x60).

(2) Independent Verification of Non-Traditional Credit Providers

JMAC may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

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a. To verify the existence of each credit provider, JMAC must review public records from the state, county, or city or other documents providing a similar level of objective information.

b. To verify credit information, JMAC must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
- obtain the most recent 12 months of cancelled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

c. To verify the Borrower's rental payment history, JMAC must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment.

(3) Sufficiency of Credit References

To be **sufficient** to establish the Borrower's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
 - gas;
 - electricity;
 - water;
 - television service; or
 - Internet service.

If JMAC cannot obtain all three credit references from the list above, JMAC may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);
- payment to child care providers made to businesses that provide such services;
- school tuition;
- retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
- rent-to-own (for example, furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
 - were made at least quarterly;
 - were not payroll deducted, and;
 - caused no insufficient funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments; or

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- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

If the borrower cannot provide at least three of these references, with at least one being from the first list; the borrower would be classified as having insufficient credit.

iii. Evaluating Credit History (Manual)

(A) General Credit (Manual)

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.

JMAC must not consider the credit history of a non-borrowing spouse, but all debts must be included in the qualifying ratios.

(B) Types of Payment Histories (Manual)

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving accounts.

(1) Satisfactory Credit

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.

Major derogatory credit on revolving accounts must include any payments made 90 Days or more after the due date, or three or more payments more than 60 Days after the due date.

(2) Payment History Requiring Additional Analysis

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

JMAC must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. JMAC must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

(C) Payment History on Housing Obligations (Manual)

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JMAC must determine the Borrower's Housing Obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord when completed by a professional property management company
- verification of Mortgage received directly from the mortgage servicer; or
- a review of canceled checks that cover the most recent 12-month period

JMAC must verify and document the previous 12 months' housing history.

For Borrowers who indicate they are living rent-free, JMAC must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

(D) Collection Accounts (Manual)

(1) Definition

A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.

(2) Standard

JMAC must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

JMAC must document reasons for approving a Mortgage when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

(E) Charge Off Accounts (Manual)

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

JMAC must determine if Charge Off Accounts were a result of:

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- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

JMAC must document reasons for approving a Mortgage when the Borrower has any Charge Off Accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

(F) Derogatory Credit Accounts (Manual)

(1) Definition

Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(2) Standard

JMAC must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items may be excluded from consideration in the underwriting analysis:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided JMAC includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

(3) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, JMAC must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(G) Judgments (Manual)

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(2) Standard

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JMAC must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

Regardless of the amount of outstanding Judgments, JMAC must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments at the time of case number assignment, and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

JMAC must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

JMAC must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

(3) Required Documentation

JMAC must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

(H) Bankruptcy (Manual)

(1) Standard: Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Mortgage if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During this time, the Borrower must have:

- re-established good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

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- can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(2) Standard: Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA insured Mortgage, if at the time of case number assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.

JMAC must determine that during this time, the Borrower's payment performance has been satisfactory and all required payments have been made on time; and the Borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

(3) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, JMAC must obtain the bankruptcy and discharge documents.

JMAC must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

(I) Foreclosure and Deed in-Lieu of Foreclosure (Manual)

(1) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if the Borrower had a foreclosure or a DIL of foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing Entity/designee.

Exceptions

JMAC may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the foreclosure.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(2) Required Documentation

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If the credit report does not indicate the date of the foreclosure or DIL of foreclosure, JMAC must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

If the foreclosure or DIL of foreclosure was the result of a circumstance beyond the Borrower's control, JMAC must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(J) Pre-Foreclosure Sales (Short Sales) (Manual)

(1) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if they relinquished a Property through a Short Sale within three years from the date of case number assignment.

This three-year period begins on the date of transfer of title by Short Sale.

(a) Exception for Borrower Current at the Time of Short Sale

A Borrower is considered eligible for a new FHA-insured Mortgage if, from the date of case number assignment for the new Mortgage:

- all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- installment debt payments for the same time period were also made within the month due.

(b) Exception for Extenuating Circumstances

JMAC may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the Short Sale, JMAC must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

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If the Short Sale was the result of a circumstance beyond the Borrower's control, JMAC must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(K) Credit Counseling/Payment Plan

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Mortgage, provided JMAC documents that:

- one year of the pay-out period has elapsed under the plan;
- the Borrower's payment performance has been satisfactory and all required payments have been made on time; and
- the Borrower has received written permission from the counseling agency to enter into the mortgage transaction.

iv. Evaluating Liabilities and Debts (Manual)

(A) General Liabilities and Debts (Manual)

(1) Standard

JMAC must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *URLA*, and required documentation.

All applicable monthly liabilities must be included in the qualifying ratio. **Closed end debts** do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless JMAC can document that the primary account holder has made all required payments on the account for the previous 12 months.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

(2) Required Documentation

JMAC must document that the funds used to pay off debts prior to closing came from an [acceptable source](#), and the Borrower did not incur new debts that were not included in the DTI ratio.

(B) Undisclosed Debt and Inquiries (Manual)

(1) Standard

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When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, JMAC must:

- verify the actual monthly payment amount;
- include the payment amount in the agreement in the Borrower's monthly liabilities and debt; and
- determine that any unsecured funds borrowed were not/will not be used for the Borrower's MRI.

JMAC must obtain a written explanation from the Borrower for all inquiries shown on the credit report that were made in the last 90 Days.

(2) Required Documentation

JMAC must document all undisclosed debt and support for its analysis of the Borrower's debt.

(C) Federal Debt (Manual)

(1) Definition

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

(2) Standard

JMAC must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total debt to income.

(3) Required Documentation

JMAC must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

(D) Alimony, Child Support, and Maintenance (Manual)

(1) Definition

Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments.

(2) Standard

For Alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in JMAC's calculation of the Borrower's gross income, JMAC must verify and include the monthly obligation in its calculation of the Borrower's debt.

Child Support and Maintenance are to be treated as a recurring liability and JMAC must include the monthly obligation in the Borrower's liabilities and debt.

(3) Required Documentation

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JMAC must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

JMAC must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.

(4) Calculation of Monthly Obligation

JMAC must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(E) Non-Borrowing Spouse Debt in Community Property States (Manual)

(1) Definition

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

(2) Standard

If the Borrower resides in a community property state or the Property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios.

The non-borrowing spouse's credit history is **not** considered a reason to deny a mortgage application.

(3) Required Documentation

JMAC must verify and document the debt of the non-borrowing spouse.

JMAC must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

JMAC must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be counted in the DTI ratio.

(F) Deferred Obligations (Manual)

(1) Definition

Deferred Obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(2) Standard

JMAC must verify and include deferred obligations in the calculation of the Borrower's debt.

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(3) Required Documentation

JMAC must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. JMAC must obtain evidence of the anticipated monthly payment obligation, if available.

(4) Calculation of Monthly Obligation

JMAC must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, JMAC must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

For a student loan, if the actual monthly payment is zero or is not available, JMAC must utilize 2 percent of the outstanding balance to establish the monthly payment.

(G) Installment Loans (Manual)

(1) Definition

Installment Loans refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

JMAC must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's debts.

If the credit report does not include a monthly payment for the loan, JMAC must use the amount of the monthly payment shown in the loan agreement or payment statement.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, JMAC must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

(H) Revolving Charge Accounts (Manual)

(1) Definition

A Revolving Charge Account refer to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(2) Standard

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JMAC must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, JMAC must use the payment shown on the current account statement or 5 percent of the outstanding balance.

(3) Required Documentation

JMAC must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, JMAC must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

(I) 30-Day Accounts (Manual)

(1) Definition

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

(2) Standard

JMAC must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, JMAC must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

JMAC must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. JMAC must use the credit report to document the balance, and must document that funds are available to pay off the balance, in excess of the funds and Reserves required to close the Mortgage.

(J) Business Debt in Borrower's Name (Manual)

(1) Definition

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless JMAC can document that the debt is being paid by the Borrower's business for the most recent 12 months, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns

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show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

This guidance does not apply to Sole Proprietors/Schedule C self employed borrowers.

(3) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, JMAC must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash flow analysis of the Borrower's business.

(K) Disputed Derogatory Credit Accounts (Manual)

(1) Definition

Disputed Derogatory Credit Accounts refer to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(2) Standard

If the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, JMAC must include a monthly payment in the Borrower's debt calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance.

(L) Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report (Manual)

(1) Definition

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance;
- disputed accounts with late payments aged 24 months or greater; or
- disputed accounts that are current and paid as agreed.

(2) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, JMAC must analyze the effect of the disputed accounts on the Borrower's ability to repay the loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

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(M) Contingent Liabilities (Manual)

(1) Definition

A Contingent Liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

(2) Standard

JMAC must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless JMAC verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments.

(3) Required Documentation

(a) Mortgage Assumptions

JMAC must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, JMAC must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

(c) Court Ordered Divorce Decree

JMAC must obtain a copy of the divorce decree ordering the spouse to make payments.

(4) Calculation of Monthly Obligation

JMAC must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(N) Collection Accounts (Manual)

(1) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(2) Standard

If the credit reports used in the analysis show cumulative outstanding collection account balances of \$2,000 or greater, JMAC must:

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- verify that the debt is paid in full at the time of or prior to settlement using an acceptable [source of funds](#);
- verify that the Borrower has made payment arrangements with the creditor; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio.

Collection accounts of a non-borrowing spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless specifically excluded by state law.

(3) Required Documentation

JMAC must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement.

If JMAC uses 5 percent of the outstanding balance, no documentation is required.

(O) Charge Off Accounts (Manual)

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.

(P) Private Savings Clubs (Manual)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' total debt.

JMAC must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

(3) Required Documentation

JMAC must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

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(Q) Obligations Not Considered Debt

Obligations not considered debt include:

- medical collections
- federal, state, and local taxes, if not delinquent and no payments required
- automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- collateralized loans secured by depository accounts
- utilities
- child care
- commuting costs
- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

b. Income Requirements (Manual)

Definition of Effective Income (Manual)

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage. Effective Income must be reasonably likely to continue through at least the first three years of the Mortgage, and meet the specific requirements described below.

Income trends must be analyzed, and be considered stable. Declining trends must be carefully analyzed, and must document how the income was determined to be stable. Declining income trends require the use of the most conservative approach when calculating effective income.

i. General Income Requirements (Manual)

JMAC must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

JMAC may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

Negative income must be subtracted from the Borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

ii. Employment Related Income (Manual)

(A) Definition

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

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(B) Standard

JMAC may use Employment related Income as Effective Income in accordance with the standards provided for each type of Employment related Income.

(C) Required Documentation

For all Employment related Income, JMAC must verify the Borrower's most recent two years of employment and income, and document using one of the following methods.

(1) Traditional Current Employment Documentation

JMAC must obtain the most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings, and one of the following to verify current employment:

- a written Verification of Employment (VOE) covering two years; or
- an electronic verification acceptable to FHA.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal re-verification of employment is acceptable.

(2) Alternative Current Employment Documentation

If using alternative documentation, JMAC must:

- obtain copies of the pay stubs covering the most recent 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal re-verification of employment is acceptable.

(3) Past Employment Documentation

Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime or Bonus Income).
- The Borrower executes [IRS Form 4506](#), *Request for Copy of Tax Return*, [IRS Form 4506-T](#), *Request for Transcript of Tax Return*, or [IRS Form 8821](#), *Tax Information Authorization*, for the previous two tax years.

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If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then JMAC must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)
- VOE(s)
- electronic verification acceptable to FHA
- evidence supporting enrollment in school or the military during the most recent two full years

iii. Primary Employment (Manual)

(A) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

(B) Standard

JMAC may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, JMAC must use the current salary to calculate Effective Income.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, JMAC must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, JMAC must average the income over the previous two years. If JMAC can document an increase in pay rate JMAC may use the most recent 12-month average of hours at the current pay rate.

iv. Part-Time Employment (Manual)

(A) Definition

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

(B) Standard

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JMAC may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

(C) Calculation of Effective Income

JMAC must average the income over the previous two years. If JMAC can document an increase in pay rate JMAC may use a 12-month average of hours at the current pay rate.

v. Overtime and Bonus Income (Manual)

(A) Definition

Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(B) Standard

JMAC may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime and Bonus Income less than two years may be considered Effective Income if JMAC documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(C) Calculation of Effective Income

For employees with Overtime or Bonus Income, JMAC must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, JMAC must use the current year's income.

vi. Seasonal Employment (Manual)

(A) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(B) Standard

JMAC may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. JMAC may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

(C) Required Documentation

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For seasonal employees with unemployment income, JMAC must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

(D) Calculation of Effective Income

For employees with Employment Income from Seasonal Employment, JMAC must average the income earned over the previous two full years to calculate Effective Income.

vii. Employer Housing Subsidy (Manual)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

JMAC may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

JMAC must verify and document the existence and the amount of the housing subsidy, and provide evidence of receipt of this allowance for at least 12 months. History of receipt is not required for borrowers with active Military allowances (BAH). **(D) Calculation of Effective Income**

For employees receiving an Employer Housing Subsidy, JMAC may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment. Must use the lessor of the current rate or the 12 month average.

viii. Employed by Family-Owned Business (Manual)

(A) Definition

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

(B) Standard

JMAC may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business, and the borrower has a two year history of receiving the income from this source..

(C) Required Documentation

JMAC must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or [Schedule K-1\(IRS Form 1065\)](#), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

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In addition to traditional or alternative documentation requirements, JMAC must obtain copies of signed personal tax returns or tax transcripts.

(D) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, JMAC must use the current salary to calculate Effective Income, and the borrower has a two year history of receiving the income from this source..

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, JMAC must consider the Borrower's current hourly rate to calculate Effective Income, as long as it is supported by the prior years earnings.

For employees who are paid hourly and whose hours vary, JMAC must average the income over the previous two years.

ix. Commission Income (Manual)

(A) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(B) Standard

JMAC may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

(C) Required Documentation

For Commission Income less than or equal to 25 percent of the Borrower's total earnings, JMAC must use traditional or alternative employment documentation.

For Commission Income greater than 25 percent of the Borrower's total earnings, JMAC must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed tax returns from the Borrower, JMAC may obtain a signed [IRS Form 4506](#), *Request for Copy of Tax Return*, [IRS Form 4506-T](#), *Request for Transcript of Tax Return*, or [IRS Form 8821](#), *Tax Information Authorization*, and tax transcripts directly from the IRS.

(D) Calculation of Effective Income

JMAC must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. JMAC must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

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JMAC must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review [Analyzing IRS Forms](#).

x. Self-Employment Income (Manual)

(A) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorship;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

JMAC may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, JMAC may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years. Previous education is not acceptable for documenting prior history.

(2) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, JMAC must document that the business income is now stable.

A Mortgagee may consider income as stable after a 20 percent reduction if JMAC can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

(C) Required Documentation

(1) Individual and Business Tax Returns

JMAC must obtain signed, completed individual and business federal income tax returns for the most recent two years, including all schedules.

(2) Profit & Loss Statements and Balance Sheets

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JMAC must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return obtained from the IRS is required.

(3) Business Credit Reports

JMAC must obtain a business credit report for all corporations and "S" corporations.

(D) Calculation of Effective Income

JMAC must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in [Analyzing IRS Forms](#).

JMAC must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self- Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

xi. Additional Required Analysis of Stability of Employment Income

(A) Frequent Changes in Employment

If the Borrower has changed jobs more than three times in the previous 12-month period, or has changed lines of work, JMAC must take additional steps to verify and document the stability of the Borrower's Employment Income. JMAC must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), JMAC may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

(C) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, JMAC may consider the Borrower's current income as Effective Income, if it can verify and document that:

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- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, JMAC may use the Borrower's pre-leave income.

For Borrowers returning to work after the first Mortgage Payment due date, JMAC may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work. Transactions involving borrowers returning to work after the first Mortgage Payment due date require management review, and approval.

Required Documentation

JMAC must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with [Sources of Funds](#), used to supplement the Borrower's income through intended date of return to work with current employer.

xii. Other Sources of Effective Income (Manual)

(A) Disability Benefits (Manual)

(1) Definition

Disability Benefits refer to benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

(2) Required Documentation

JMAC must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. JMAC must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, JMAC may consider the income effective and reasonably likely to continue. JMAC may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

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Under no circumstance may JMAC inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(a) Social Security Disability (Manual)

For Social Security Disability income, including Supplemental Security Income (SSI), JMAC must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- a copy of the Borrower’s [form SSA-1099/1042S](#), *Social Security Benefit Statement*.

(b) VA Disability

For VA disability benefits, JMAC must obtain [VA Form 26-8937](#), *Verification of VA Benefits*, showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

(c) Private Disability

For private disability benefits, JMAC must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(3) Calculation of Effective Income

JMAC must use the most recent amount of benefits received to calculate Effective Income.

(B) Alimony, Child Support, and Maintenance Income (Manual)

(1) Definition

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.

(2) Required Documentation

JMAC must obtain a fully executed copy of the Borrower’s final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

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When using a final divorce decree, legal separation agreement or court order, JMAC must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

JMAC must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

JMAC must provide evidence that the claimed income will continue for at least three years. JMAC may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

(3) Calculation of Effective Income

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, JMAC may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, JMAC may use the current payment to calculate Effective Income.

If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, JMAC must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, JMAC must use the average over the time of receipt.

(C) Military Income (Manual)

(1) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

JMAC may not use education benefits as Effective Income.

(2) Required Documentation

JMAC must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). JMAC must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service, and provides a statement from the Commanding Officer confirming the borrower's eligibility for continued service.

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(3) Calculation of Effective Income

JMAC must use the current amount of Military Income received to calculate Effective Income.

(E) Section 8 Homeownership Vouchers (Manual)

(1) Definition

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

(2) Required Documentation

JMAC must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. JMAC may consider that this income is reasonably likely to continue for three years.

(3) Calculation of Effective Income

JMAC may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment.

JMAC must use the current subsidy rate to calculate the Effective Income.

(F) Other Public Assistance (Manual)

(1) Definition

Public Assistance refers to income received from government assistance programs.

(2) Required Documentation

JMAC must verify and document the income received from the government agency.

If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, JMAC may consider the income effective and reasonably likely to continue.

(3) Calculation of Effective Income

JMAC must use the current rate of Public Assistance received to calculate Effective Income.

(G) Automobile Allowances (Manual)

(1) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(2) Required Documentation

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JMAC must verify and document the Automobile Allowance received from the employer for the previous two years.

JMAC must also obtain [IRS Form 2106](#), *Employee Business Expenses*, for the previous two years.

(3) Calculation of Effective Income

JMAC must determine the portion of the allowance that can be considered Effective Income.

JMAC must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.

If the Borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:

- the Borrower's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

Automobile Allowance refers to the amount of the Automobile Allowance that exceeds the Borrower's actual automobile expenditures.

(H) Retirement Income (Manual)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(1) Social Security Income (Manual)

(a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, JMAC must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's [SSA Form-1099/1042S](#), *Social Security Benefit Statement*.

In addition to verification of income, JMAC must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's

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determination on the Borrower's eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, JMAC must consider the income effective and reasonably likely to continue. JMAC may not request additional documentation from the Borrower to demonstrate continuance of Social Security Income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date. **(c) Calculation of Effective Income**

JMAC must use the current amount of Social Security Income received to calculate Effective Income.

(2) Pension (Manual)

(a) Definition

Pension refers to income received from the Borrower's former employer(s).

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

JMAC must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's Pension/retirement letter from the former employer.

(c) Calculation of Effective Income

JMAC must use the current amount of Pension income received to calculate Effective Income.

(3) Individual Retirement Account and 401(k) (Manual)

(a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

JMAC must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or

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- the most recent bank statement evidencing receipt of income.

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, JMAC must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, JMAC must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, JMAC must use the average over the time of receipt.

The borrower must have an established, and continual distribution plan. At-will withdrawals from a retirement account may not be considered Effective Income.

(I) Rental Income (Manual)

(1) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(2) Rental Income Received from the Subject Property (Manual)

(a) Standard

JMAC may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

Rental Income from the subject Property may be considered Effective Income when the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.

(b) Required Documentation

Required documentation varies depending upon the length of time the Borrower has owned the Property.

(i) Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

Two-to Four-Units

JMAC must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form of the Borrower Handbook 4000.1 276](#) Publish Date: 08/26/2015 | Effective Date: 09/14/2015 [1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report](#)) and the prospective leases if available.

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JMAC must verify and document the proposed Rental Income by obtaining a [Fannie Mae Form 1004/Freddie Mac Form 70](#), *Uniform Residential Appraisal Report*, [Fannie Mae Form 1007/Freddie Mac Form 1000](#), *Single Family Comparable Rent Schedule*, and [Fannie Mae Form 216/Freddie Mac Form 998](#), *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

(ii) History of Rental Income

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, JMAC must verify and document the existing Rental Income by obtaining the existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation), and the Borrower's most recent tax returns, including Schedule E, from the previous two years.

For Properties with less than two years of Rental Income history, JMAC must document the date of acquisition by providing the deed, Settlement Statement or other legal document.

(c) Calculation of Effective Income

JMAC must add the net subject property Rental Income to the Borrower's gross income. JMAC may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

(i) Limited or No History of Rental Income

To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, JMAC must use the lesser of:

- the monthly operating income reported on [Freddie Mac Form 998](#); or
- 75 percent of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

(ii) History of Rental Income

JMAC must calculate the Rental Income by averaging the amount shown on the Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, JMAC must annualize the Rental Income for the length of time the Property has been owned.

(3) Rental Income from Other Real Estate Holdings (Manual)

(a) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100

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miles from the Borrower's current Principal Residence. JMAC must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.

(b) Required Documentation

(i) Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income for the Property since the previous tax filing, including Property being vacated by the Borrower, JMAC must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property.

The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

JMAC must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and the prospective leases if available.

One Unit

JMAC must verify and document the proposed Rental Income by obtaining a [Fannie Mae Form 1004/Freddie Mac Form 70](#), *Uniform Residential Appraisal Report*, [Fannie Mae Form 1007/Freddie Mac Form 1000](#), *Single Family Comparable Rent Schedule*, and [Fannie Mae Form 216/Freddie Mac Form 998](#), *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

(ii) History of Rental Income

JMAC must obtain the Borrower's last two years' tax returns with Schedule E.

(c) Calculation of Effective Net Rental Income

(i) Limited or No History of Rental Income

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, JMAC must deduct the PITI from the lesser of:

- the monthly operating income reported on [Freddie Mac Form 998](#), or
- 75 percent of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

(ii) History of Net Rental Income

JMAC must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.

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Depreciation shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, JMAC must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two years of Rental Income history, JMAC must document the date of acquisition by providing the deed, Settlement Statement or other legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

(4) Borders of the Subject Property (Manual)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(b) Standard

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.

(c) Required Documentation

JMAC must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, JMAC must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

JMAC must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(J) Investment Income (Manual)

(1) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(2) Required Documentation

JMAC must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

(3) Calculation of Effective Income

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JMAC must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

JMAC must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

(K) Capital Gains and Losses (Manual)

(1) Definition

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

(2) Standard

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

(3) Required Documentation

Three years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as Effective Income; or
- consistently shows a loss, it must be deducted from the total income.

(L) Expected Income (Manual)

(1) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(2) Standard

JMAC may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(3) Required Documentation

JMAC must verify and document the existence and amount of Expected Income with the employer in writing and that it is **guaranteed** to begin within 60 Days of mortgage closing. Any new job should have a non-revocable binding agreement in order to determine that the expected employment is guaranteed.

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For expected Retirement Income, JMAC must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. JMAC must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

(M) Trust Accounts (Manual)

(1) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(2) Required Documentation

JMAC must verify and document the existence of the Trust Agreement or other trustee statement. JMAC must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

JMAC must verify that regular payments will continue for at least the first three years of the mortgage term.

(3) Calculation of Effective Income

JMAC must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(N) Annuities or Similar (Manual)

(1) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(2) Required Documentation

JMAC must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Mortgage. JMAC must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

The borrower must have an established, and continual distribution plan. At-will withdrawals from an annuity may not be considered Effective Income.

(3) Calculation of Effective Income

JMAC must use the current rate of the annuity to calculate Effective Income.

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JMAC must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.

(O) Notes Receivable Income (Manual)

(1) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

(2) Required Documentation

JMAC must verify and document the existence of the Note. JMAC must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, JMAC must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, JMAC must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(P) Non-Taxable Income (Grossing Up) (Manual)

(1) Definition

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

JMAC must document and support the amount of income to be Grossed Up for any Non-Taxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(3) Calculation of Effective Income

The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income.



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The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, JMAC may Gross Up the Non-Taxable Income by 15 percent.

JMAC may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

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c. Asset Requirements (Manual)

i. General Asset Requirements (Manual)

JMAC may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI.

(A) Earnest Money Deposit (Manual)

JMAC must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's cancelled check;
- certification from the deposit-holder acknowledging receipt of funds; or
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, JMAC must verify that the gift is in compliance with [Gifts \(Personal and Equity\)](#).

(B) Cash to Close (Manual)

JMAC must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing.

JMAC must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(1) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount.

(2) Mortgagee Responsibility for Estimating Settlement Requirements

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

(a) Origination Fees and Other Closing Costs

JMAC or sponsored TPO may charge a reasonable origination fee.



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JMAC or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Mortgage.

Charges may not exceed the actual costs.

JMAC must comply with HUD's Qualified Mortgage Rule at [24 CFR § 203.19](#).

(b) Discount Points

Discount Points refer to a charge from JMAC for the interest rate chosen. They are paid by the Borrower and become part of the total cash required to close.

(c) Types of Prepaid Items (Including Per Diem Interest)

Prepaid items may include flood and hazard insurance premiums, MIP, real estate taxes, and per diem interest. They must comply with the requirements of the [CFPB](#).

(d) Non-Realty or Personal Property

Non-Realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

(e) Upfront Mortgage Insurance Premium Amounts

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00.

(f) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

(g) Repairs and Improvements

Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements.

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to a credit from a Mortgagee for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation.

The funds derived from a premium priced Mortgage:

- must be disclosed in accordance with RESPA;

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- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

(i) Interested Party Contributions on the Settlement Statement

JMAC may apply Interested Party credits to the origination fees, other closing costs and discount points including any items Paid Outside Closing (POC).

The refund of the Borrower's POCs may be used toward the Borrower's MRI if JMAC documents that the POCs were paid with the Borrower's own funds.

JMAC must identify the total Interested Party credits on the front page of the Settlement Statement or similar legal document or in an addendum. JMAC must identify each item paid by Interested Party Contributions.

(C) Reserves (Manual)

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- gift funds;
- equity in another Property; or
- borrowed funds from any source.

(1) Reserves for One- to Two-Unit Properties

JMAC must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.

(2) Reserves for Three- to Four-Unit Properties

JMAC must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties.

ii. Source Requirements for the Borrower's Minimum Required Investment (Manual)

(A) Definition

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the Property.

(B) Standard

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JMAC may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

- (1) the seller of the Property;
- (2) any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

iii. Sources of Funds (Manual)

JMAC must verify liquid assets for cash to close and Reserves as indicated.

(A) Checking and Savings Accounts (Manual)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

JMAC must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, JMAC must obtain documentation of the deposits. JMAC must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

(a) Traditional Documentation

JMAC must obtain a written VOD and the Borrower's most recent statement for each account.

(b) Alternative Documentation

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, JMAC must obtain statement(s) for the most recent two months.

(B) Cash on Hand (Manual)

(1) Definition

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Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

Cash on hand is not an acceptable source of funds.

(C) Retirement Accounts (Manual)

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

JMAC may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

(3) Required Documentation

JMAC must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(D) Stocks and Bonds (Manual)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

JMAC must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, JMAC must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless JMAC verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

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JMAC must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account JMAC must obtain a copy of each stock or bond certificate.

(E) Private Savings Clubs (Manual)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

JMAC may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

JMAC must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. JMAC must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

JMAC must obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.

(F) Gifts (Personal and Equity) (Manual)

(1) Definition

Gifts refer to the contributions of cash or equity with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization;
- a governmental agency or public Entity that has a program providing homeownership assistance to:
 - low or moderate income families; or
 - first-time homebuyers.

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Any gift of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(b) Reserves

Surplus gift funds may not be considered as cash Reserves.

(c) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

(3) Required Documentation

JMAC must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

JMAC must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.

a. If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.

b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.

If the gift funds are paid directly to the settlement agent, JMAC must verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source by a review of the donor's bank statement.

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, JMAC must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

JMAC and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

Regardless of when gift funds are made available to a Borrower, JMAC must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

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Only Family Members may provide equity credit as a gift on Property being sold to other Family Members.

(b) Required Documentation

JMAC must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

(G) Party Contributions (Manual)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs and discount points. The 6 percent limit also includes:

- Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution.

(3) Required Documentation

JMAC must document the total Interested Party Contributions on form [HUD-92900-LT](#), Settlement Statement or similar legal document, and the sales contract.

(H) Inducements to Purchase (Manual)

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Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the purchase price;
- contributions exceeding the origination fees, other closing costs and discount points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (Manual)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

(2) Sales Commission (Manual)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (Manual)

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Rent may be an inducement to purchase when the sales agreement reveals that the Borrower has been living in the Property rent-free or has an agreement to occupy the Property at a rental amount considerably below fair market rent.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Down-payment Assistance Programs (Manual)

JMAC maintains a list of approved DPA's, and must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

FHA also does not allow nonprofit entities to provide gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a gift that is to be used for all, or part, of a Borrower's down-payment, and the organization providing the gift loses or gives up its federal tax-exempt status, FHA will recognize the gift as an acceptable source of the down-payment provided that:

- the gift is made to the Borrower;
- the gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Down-payment Assistance Provider is a Charitable Organization

JMAC is responsible for ensuring that an Entity providing down-payment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the [IRS Exempt Organization Select Check](#), which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (Manual)

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Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt. **New secondary financing is not permitted by JMAC Lending, but existing subordinate financing may remain in place if within applicable CLTV limits. Refer to the Refinance section of this handbook for additional details.**

(K) Loans (Manual)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (Manual)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. JMAC must reduce the amount of the corresponding asset by the amount of the collateralized loan.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(d) Required Documentation

JMAC must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (Manual)

(a) Definition

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A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

JMAC must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

JMAC must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (Manual)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA insured Mortgage, and meet the requirements for [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

JMAC must verify and document the promissory Note.

(L) Grants (Manual)

(1) Disaster Relief Grants (Manual)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

JMAC must verify and document the Borrower's receipt of the grant and terms of use.

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Any grant of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (Manual)

(a) Definition

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of down-payment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a gift or grant even if it does not require regular payments or has other features forgiving the debt.

(b) Standard

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

(c) Required Documentation

JMAC must verify and document the Borrower's receipt of the grant and terms of use.

JMAC must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (Manual)

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

JMAC may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

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The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, JMAC must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

JMAC must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

JMAC must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, JMAC must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (Manual)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

(2) Standard

JMAC must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain funds for closing.

JMAC must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. Cash received for the sale of personal property is not acceptable. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(O) Trade-In of Manufactured Housing (Manual)

(1) Definition

Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

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The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

JMAC must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. JMAC must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (Manual)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

JMAC must verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or similar legal document.

JMAC must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the net sale proceeds.

(Q) Real Estate Commission from Sale of a Subject Property (Manual)

(1) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

(2) Standard

JMAC may consider Real Estate Commissions from Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a gift, in compliance with standard gift requirements.

(3) Required Documentation

JMAC must verify and document that the Borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a real estate commission from the sale of the Property being purchased.

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(R) Rent Credits (Manual)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

JMAC may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MRI.

(3) Required Documentation

JMAC must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

d. Final Underwriting Decision (Manual)

The Direct Endorsement (DE) underwriter is ultimately responsible for making an underwriting decision on behalf of their DE Mortgagee in compliance with HUD requirements.

i. Duty of Care/Due Diligence (Manual)

The underwriter must exercise the same level of care that would be used in underwriting a Mortgage entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured Mortgage.

ii. Specific Underwriter Responsibilities (Manual)

The underwriter must review each Mortgage as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Mortgage Payments to make an underwriting decision on behalf of their DE Mortgagee in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the mortgage obligation according to the terms of the Mortgage.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Mortgage, and the overall acceptability of the Mortgage for FHA insurance;
- identify any inconsistencies in information obtained by JMAC in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Mortgage; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.

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The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

iii. Underwriting of Credit and Debt (Manual)

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report (see [Credit Requirements](#)).

The lack of traditional credit history or the Borrower's decision to not use credit may not be used as the sole basis for rejecting the mortgage application.

Compensating factors cannot be used to compensate for any derogatory credit.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the mortgage transaction or the purchase of the Property.

iv. Underwriting of Income (Manual)

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation (see [Income Requirements](#)).

v. Underwriting of Assets (Manual)

The underwriter must review the assets of a Borrower and verify that they have been supported with the proper documentation (see [Asset Requirements](#)).

vi. Verifying Mortgage Insurance Premium and Mortgage Amount (Manual)

The underwriter must review the MIP and mortgage amount and verify that they have been supported with the proper documentation (see [Underwriting](#)).

vii. Calculating Qualifying Ratios (Manual)

(A) General Information about Qualifying Ratios

For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Mortgage Payment to Effective Income Ratio (PTI) and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the [Approvable Ratio Requirements Chart](#).

JMAC must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.

(B) Calculating Total Mortgage Payment

The total Mortgage Payment includes:

- P&I;

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- real estate taxes;
- hazard insurance;
- flood insurance as applicable;
- MIP;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

JMAC may deduct the amount of the Mortgage Credit Certificate or Section 8 Homeownership Voucher if it is paid directly to the servicer.

(1) Estimating Real Estate Taxes

JMAC must use accurate estimates of monthly tax escrows when calculating the total Mortgage Payment.

In New Construction cases, property tax estimates must be based on the land and improvements.

(C) Calculating Total Fixed Payment

The Total Fixed Payment includes:

- the total Mortgage Payment; and
- monthly obligations on all debts and liabilities.

viii. Approvable Ratio Requirements (Manual)

The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or No Credit Score	31/43	<p>Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios.</p> <p>Energy Efficient Homes may have stretch ratios of 33/45.</p>

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580 and above	31/43	No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	37/47	One of the following: <ul style="list-style-type: none"> • verified and documented cash Reserves; • minimal increase in housing payment; or • residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	Two of the following: <ul style="list-style-type: none"> • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

ix. Documenting Acceptable Compensating Factors (Manual)

The following describes the compensating factors and required documentation that may be used to justify approval of manually underwritten Mortgages with qualifying ratios as described above.

(A) Energy Efficient Homes

All Properties meeting the 2000 International Energy Conservation Code (IECC) are Energy Efficient Homes (EEH) and eligible for the two percentage point increase in the EEH qualifying ratios (stretch ratios).

(B) Verified and Documented Cash Reserves

Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or

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- Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

Reserves are calculated as the Borrower's total assets as described in [Asset Requirements](#) less:

- the total funds required to close the Mortgage;
- gifts;
- borrowed funds; and
- cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

(C) Minimal Increase in Housing Payment

A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than \$100 or 5 percent, whichever is less; and
- there is a documented 12 month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the Mortgage being refinanced must have been made within the month due for the previous 12 months.
- If the Borrower has no current housing payment JMAC may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

(D) No Discretionary Debt

No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

(E) Significant Additional Income Not Reflected in Effective Income

Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

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- JMAC must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

(F) Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) [Lenders Handbook - VA Pamphlet 26-7](#), Chapter 4.9 b and e.

(1) Calculating Residual Income

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- proposed total Mortgage Payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Non-Taxable Income.

If available, JMAC must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, JMAC may rely upon current pay stubs.

For estimated maintenance and utilities, JMAC must multiply the Gross Living Area of the Property by the maintenance and utility factor found in the [Lenders Handbook - VA Pamphlet 26-7](#).

(2) Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, JMAC must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."

Exception

JMAC may omit any individuals from "family size" who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

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From the table provided in [Lenders Handbook - VA Pamphlet 26-7](#), select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

x. Borrower Approval or Denial (Manual)

(A) Re-Underwriting

JMAC must re-underwrite a Mortgage when any data element of the Mortgage changes and/or new Borrower information becomes available.

(B) Documentation of Final Underwriting Review Decision

The underwriter must complete the following documents to evidence their final underwriting decision. For cases involving Mortgages to HUD employees and Test Cases, JMAC completes the following and then submits the complete underwritten mortgage application to FHA for review and issuance of a Firm Commitment or Rejection Notice prior to closing.

(1) Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary

The underwriter must record the following items on form [HUD-92900-LT](#):

- their decision;
- any compensating factors;
- any modification of the mortgage amount and approval conditions under "Underwriter Comments"; and
- their DE Identification Number and signature.

(2) Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value

The underwriter must confirm that form [HUD-92800.5B](#) is completed as directed in the form instructions.

(3) Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application

The underwriter must complete form [HUD-92900-A](#) as directed in the form instructions.

An authorized officer of JMAC, the Borrower, and the underwriter must execute form [HUD-92900-A](#), as indicated in the instructions.

(C) Conditional Approval

The underwriter must condition the approval of the Borrower on the completion of the final [URLA \(Fannie Mae Form 1003/Freddie Mac Form 65\)](#) and form [HUD-92900-A](#) at or before closing if the underwriter relied on an initial [URLA](#) and form [HUD-92900-A](#) in underwriting the Mortgage.

(D) HUD Employee Mortgages

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If the Mortgage involves a HUD employee, JMAC must condition the loan on the approval of the Mortgage by HUD. JMAC must submit the case binder to the Processing and Underwriting Division Director at the [Jurisdictional HOC](#) for final underwriting approval.

(E) Notification of Borrower of Approval and Term of the Approval

JMAC must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form [HUD-92800.5B](#).

(F) Responsibilities upon Denial

When a Mortgage is denied, JMAC must comply with all requirements of the Fair Credit Reporting Act ([FCRA](#)), and the Equal Credit Opportunity Act ([ECOA](#)), as implemented by Regulation B ([12 CFR Part 1002](#)). JMAC must complete the Mortgage Credit Reject in [FHAC](#).

6. Closing

a. Mortgagee Closing Requirements

The case binder must contain all documentation that has been relied upon in support of JMAC's decision to approve the Mortgage.

i. Chain of Title

JMAC must obtain [evidence of prior ownership](#) when a Property was sold within 12 months of the case number assignment date. JMAC must review the evidence of prior ownership to determine any undisclosed Identity-of-Interest transactions.

ii. Title

JMAC must ensure that all objections to title have been cleared and any discrepancies have been resolved to ensure that the FHA-insured Mortgage is in [first lien position](#).

(A) Good and Marketable Title

JMAC must determine if there are any exceptions to good and marketable title not covered by the General Waiver (see Section [General Eligibility](#) and [24 CFR § 203.389](#)).

JMAC must review any exceptions discovered during the title search and decide whether such title exceptions affect the Property's value and/or marketability.

If JMAC determines that any exception affects the Property's value and/or marketability, JMAC must request a waiver.

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(B) Requests for Title Exceptions Not Covered by the General Waiver

JMAC must submit a request for a waiver when the Title Exception is not covered by the General Waiver, to the attention of the Processing and Underwriting Division Director at the Jurisdictional HOC prior to endorsement. The request must include the case number, the specific guideline and the reason JMAC is asking for the waiver. If the Jurisdictional HOC grants the requested waiver, the HOC will notify JMAC in writing. JMAC must place the notice of approval in the mortgage file.

If the waiver request is denied and good and marketable title is not obtained, the Mortgage is not eligible for FHA insurance.

iii. Legal Restrictions on Conveyance (Free Assumability)

JMAC must determine if there are any legal restrictions on conveyance in accordance with [24 CFR § 203.41](#).

iv. Closing in Compliance with Mortgage Approval

JMAC must instruct the settlement agent to close the Mortgage in the same manner in which it was underwritten and approved.

JMAC must ensure that the conditions listed on form [HUD-92900-A](#) and/or form [HUD-92800.5B](#) are satisfied.

v. Closing in JMAC's Name

A Mortgage may close in the name of JMAC or the sponsoring Mortgagee, the principal or the authorized agent. TPOs that are not FHA-approved Mortgagees may not close in their own names or perform any functions in FHA Connection ([FHAC](#)).

vi. Required Forms

JMAC must use the forms and/or language prescribed by FHA in the legal documents used for closing the Mortgage.

vii. Certifications

(A) Borrower Certification

The Borrower must sign the certification on form [HUD-92900-A](#) and the [Settlement Certification](#) in accordance with the instructions provided on the form.

(B) Seller Certification

The seller must sign the certification on the Settlement Certification.

(C) Settlement Agent Certification

The Settlement agent must sign the certification on the Settlement Certification.

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(D) Lender Certification

JMAC must sign the certifications on the form [HUD-92900-A](#) in accordance with the instructions provided on the form.

viii. Projected Escrow

JMAC must establish the escrow account in accordance with the regulatory requirements in [24 CFR § 203.550](#) and RESPA.

(A) Monthly Escrow Obligations

JMAC must collect a monthly amount from the Borrower that will enable it to pay all escrow obligations in accordance with [24 CFR § 203.23](#). The escrow account must be sufficient to meet the following obligations when they become due:

- hazard insurance premiums;
- real estate taxes;
- Mortgage Insurance Premiums (MIP);
- special assessments;
- flood insurance premiums if applicable;
- Ground Rents if applicable; and
- any item that would create liens on the Property positioned ahead of the FHA-insured Mortgage, other than condominium or Homeowners' Association (HOA) fees.

(B) Repair Completion Escrow Requirement

JMAC does not permit any repair escrow, or holdback. All repairs must be completed prior to closing.

ix. Closing Costs and Fees

JMAC must ensure that all fees charged to the Borrower comply with all applicable federal, state and local laws and disclosure requirements.

JMAC is not permitted to use closing costs to help the Borrower meet the Minimum Required Investment (MRI).

(A) Collecting Customary and Reasonable Fees

JMAC may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.

JMAC must ensure that the aggregate charges do not violate FHA's Tiered Pricing rules.

(B) Other Fees and Charges

JMAC or sponsored TPO may charge the Borrower discount points, and lock-in and rate lock fees consistent with FHA and CFPB requirements.

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(1) Origination Fees

JMAC may charge an origination fee in accordance with RESPA.

(2) Discount Points

JMAC may charge the Borrower discount points.

(3) Lock-in and Rate Lock Fees

JMAC may charge the Borrower lock-in and rate lock fees only if JMAC provides a lock-in or commitment agreement guaranteeing the interest rate and/or discount points for a period of not less than 15 Days prior to the anticipated closing.

(C) Qualified Mortgage

JMAC must ensure the points and fees charged are in compliance with FHA's [Qualified Mortgage Rule](#).

(D) Tiered Pricing

JMAC must ensure that the aggregate fees and charges do not violate the following Tiered Pricing rule.

(1) Definitions for Tiered Pricing

Area refers to a metropolitan statistical area as established by the Office of Management and Budget.

Mortgage Charge refers to the interest rate, discount points, origination fee, and any other amount charged to the Borrower for an insured Mortgage.

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a Mortgage expressed as a percentage of the initial principal of the Mortgage.

Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage points from JMAC's reasonable and customary rate for insured Mortgages for dwellings located within the area.

(2) Required Documentation

JMAC must document that any variation in the Mortgage Charge Rate is based on actual variations in fees or costs to JMAC to make the Mortgage.

(3) Standard

JMAC may not make a Mortgage with a Mortgage Charge Rate that varies more than two percentage points from JMAC's reasonable and customary rate for insured Mortgages for dwellings located within the area.

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To determine whether a Mortgage exceeds the two percentage point variation limit, JMAC must compare Mortgage Charge Rates for Mortgages of the same type, from the same area, and made on the same day or during some other reasonably limited period.

See Section 203(u) of the National Housing Act (12 U.S.C. § 1709(u)), [24 CFR § 200.12](#).

x. Disbursement Date

Disbursement Date refers to the date the proceeds of the Mortgage are made available to the Borrower.

The Disbursement Date must occur before the expiration of the FHA-issued Firm Commitment or DE approval and credit documents.

xi. Per Diem Interest and Interest Credits

JMAC may collect per diem interest from the Disbursement Date to the date amortization begins.

Alternatively, JMAC may begin amortization up to 7 Days prior to the Disbursement Date and provide a per diem interest credit. Any per diem interest credit may not be used to meet the Borrower's MRI.

Per diem interest must be computed using a factor of 1/365th of the annual rate.

xii. Signatures

JMACs must ensure that the Mortgage, Note, and all closing documents are signed by all required parties in accordance with the [Borrower Eligibility](#).

(A) Use of Power of Attorney at Closing

A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including page 4 of the final [HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application](#) and the final [Fannie Mae Form 1003/Freddie Mac Form 65, Uniform Residential Loan Application \(URLA\)](#).

Unless required by applicable state law, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- Mortgagee, or any employee or Affiliate;
- loan originator, or employer or employee;
- title insurance company providing the title insurance policy, the title agent closing the Mortgage, or any of their Affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

Refer to JMAC Power of Attorney Policy for additional requirements

JMAC must obtain copies of the signed initial *URLA* and initial form HUD [92900-A](#) signed by the Borrower or POA in accordance with [Signature Requirements for all Application Forms](#).

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b. Mortgage and Note

i. Definitions

Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential Property, such as a deed of trust or security deed.

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Mortgage.

ii. Standard

JMAC must develop or obtain a separate Mortgage and Note that conforms generally to the Freddie Mac and Fannie Mae forms in both form and content, but that includes the specific modification required by FHA set forth in the applicable [Model Note and Mortgage](#).

JMAC must ensure that the Mortgage and Note comply with all applicable state and local requirements for creating a recordable and enforceable Mortgage, and an enforceable Note.

c. Disbursement of Mortgage Proceeds

i. Standard for Disbursement of Mortgage Proceeds

JMAC must verify that Mortgage proceeds are disbursed in the proper amount to the Borrower and the seller, or in the case of a refinance transaction, to the debt holder.

At closing, the Mortgage proceeds disbursed by JMAC and the cash from the Borrower must equal the total Acquisition Cost or refinance cost.

ii. Required Documentation for Disbursement of Mortgage Proceeds

JMAC must obtain the final Settlement Statement or similar legal document from the settlement agent.

7. Programs and Products

a. Refinances

i. Overview

(A) Definition

A Refinance Transaction is used to pay off the existing debt or to withdraw equity from the Property with the proceeds of a new Mortgage for a Borrower with legal title to the subject Property.

(B) Types of Refinances

(1) Cash-Out

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A Cash-Out Refinance is a refinance of any Mortgage or a withdrawal of equity where no Mortgage currently exists, in which the mortgage proceeds are not limited to specific purposes.

(2) No Cash-Out

A No Cash-Out Refinance is a refinance of any Mortgage in which the mortgage proceeds are limited to the purpose of extinguishing the existing debt and costs associated with the transaction. FHA offers three types of no cash-out refinances:

(a) Rate and Term

Rate and Term refers to a no cash-out refinance of any Mortgage in which all proceeds are used to pay existing mortgage liens on the subject Property and costs associated with the transaction.

(b) Simple Refinance

Simple Refinance refers to a no cash-out refinance of an existing FHA-insured Mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject Property and costs associated with the transaction.

(c) Streamline Refinance

Streamline Refinance refers to the refinance of an existing FHA-insured Mortgage requiring limited Borrower credit documentation and underwriting.

There are two different streamline options available.

(i) Credit Qualifying

JMAC must perform a credit and capacity analysis of the Borrower, but no appraisal is required.

(ii) Non-Credit Qualifying

JMAC does not need to perform credit or capacity analysis or obtain an appraisal.

(3) Refinance of Borrowers in Negative Equity Positions (also known as Short Refinance) – Available for JMAC serviced loans only

A Borrower who is current on their non FHA-insured Mortgage may qualify for an FHA-insured refinance Mortgage provided that JMAC or Investor writes off at least 10 percent of the unpaid principal balance of the existing first lien Mortgage. (See [Refinance of Borrowers in Negative Equity Positions Program \(Short Refi\)](#)).

(4) Refinances for the Purpose of Rehabilitation or Repair

A Borrower may refinance existing debts and obtain additional financing for purposes of rehabilitation and repair.

ii. General Eligibility

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(A) FHA-Insured to FHA-Insured Refinances (FHA-to-FHA)

FHA-to-FHA refinances may be used with any refinance type. JMAC must obtain a Refinance Authorization Number from FHA Connection ([FHAC](#)) for all FHA-to-FHA refinances.

FHA will not issue a new case number for any FHA to FHA Refinance where the existing Mortgage to be paid off has a Repair or Rehabilitation escrow account that has not been electronically closed out in FHAC.

(B) General Borrower Eligibility

At least one Borrower on the refinancing Mortgage must hold title to the Property being refinanced, at the time of application, and prior to case number assignment.

(C) General Mortgage Eligibility

(1) Standard

For cases endorsed on or before September 30, 2015, JMAC must not approve any Mortgage that refinances or otherwise replaces a Mortgage that has been subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state.

(2) Required Documentation

If the Mortgage to be insured is located in an area where a state, municipality, or other political subdivision has exercised eminent domain condemnation or seizure of a Mortgage, JMAC must obtain a certification from the Borrower stating the Mortgage being refinanced was not subject to eminent domain condemnation or seizure.

iii. Temporary Interest Rate Buydowns

Temporary interest rate buydowns are not permitted.

iv. Upfront Mortgage Insurance Premium Refunds

If the Borrower is refinancing their current FHA-insured Mortgage to another FHA-insured Mortgage within 3 years, a refund credit is applied to reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced Mortgage, according to the refund schedule shown in the table below:

Upfront Mortgage Insurance Premium Refund Percentages												
Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	80	78	76	74	72	70	68	66	64	62	60	58
2	56	54	52	50	48	46	44	42	40	38	36	34

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3	32	30	28	26	24	22	20	18	16	14	12	10
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v. Cash-Out Refinances

(A) Borrower Eligibility

Income from a non-occupant co-Borrower may not be used to qualify for a cash-out refinance. JMAC does not permit cash out when the current loan has been modified.

(1) Occupancy Requirements

(a) Standard

Cash-out refinance transactions are only permitted on owner-occupied Principal Residences.

The Property securing the cash-out refinance must have been owned and occupied by the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.

Exception

In the case of inheritance, a Borrower is not required to occupy the Property for a minimum period of time before applying for a cash-out refinance, provided the Borrower has not treated the subject Property as an Investment Property at any point since inheritance of the Property. If the Borrower rents the Property following inheritance, the Borrower is not eligible for cash-out refinance until the Borrower has occupied the Property as a Principal Residence for at least 12 months.

(b) Required Documentation

JMAC must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject Property as their Principal Residence for the 12 months prior to case number assignment.

(2) Payment History Requirements

(a) Standard

JMAC must document that the Borrower has made all payments for all their Mortgages within the month due for the previous 12 months or since the Borrower obtained the Mortgages, whichever is less.

Additionally, the payments for all Mortgages secured by the subject Property must have been paid within the month due for the month prior to mortgage Disbursement.

Properties with Mortgages must have a minimum of six months of Mortgage Payments. Properties owned free and clear may be refinanced as cash-out transactions.

(b) Required Documentation

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If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, JMAC must obtain a verification of Mortgage, bank statements or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months, and the loan must be manually underwritten.

(B) Maximum Mortgage Amounts

(1) Standard

(a) Maximum Loan-to-Value

The maximum LTV is **85 percent** of the Adjusted Value.

(b) Maximum Combined Loan-to-Value

The maximum CLTV is **85 percent** of the Adjusted Value.

(c) Nationwide Mortgage Limit

The combined mortgage amount of the first Mortgage and any subordinate liens cannot exceed the [Nationwide Mortgage Limit](#) described in [National Housing Act's Statutory Limits](#).

(2) Required Documentation

JMAC must obtain the payoff statement for all existing Mortgages.

vi. No Cash-Out Refinances

(A) Rate and Term

(1) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Rate and Term refinance transactions are only permitted on owner occupied Principal Residences.

(ii) Required Documentation

JMAC must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property and determine the length of time the Borrower has occupied the subject Property as their Principal Residence.

(b) Payment History Requirements (Manually Underwritten)

(i) Standard

For manually underwritten Mortgages with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

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For manually underwritten Mortgages with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all Mortgages.

The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to mortgage Disbursement.

(ii) Required Documentation

If the Mortgage on the subject Property is not reported in the Borrower's credit report, JMAC must obtain a verification of Mortgage to evidence payment history for the previous 12 months, and the loan must be manually underwritten.

(2) Maximum Mortgage Amount

(a) Maximum Loan-to-Value Ratio

The maximum LTV for a Rate and Term refinance is:

- **97.75 percent** for Principal Residences that have been owner-occupied for previous 12 months, or owner-occupied since acquisition if acquired within 12 months, at case number assignment;
- **85 percent** for a Borrower who has occupied the subject Property as their Principal Residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the Property for that entire period of ownership; or

(b) Calculating Maximum Mortgage Amount

(i) Standard

The maximum mortgage amount for a Rate and Term refinance is:

- the lesser of:
 - the [Nationwide Mortgage Limit](#);
 - the maximum LTV based on the Maximum LTV Ratio from above; or
 - the sum of existing debt and costs associated with the transaction as follows:
- existing debt includes:
- the unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
- the unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
- the unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond \$1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
- ex-spouse or co-Borrower equity, as described in "Refinancing to Buy out Title Holder Equity" below;

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- interest due on the existing Mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages;
- allowed costs include all Borrower paid costs associated with the new Mortgage; and
- any Borrower-paid repairs required by the appraisal;
- less any refund of the Upfront Mortgage Insurance Premium (UFMIP), if financed in the original Mortgage.

Short Payoffs

JMAC may approve a Rate and Term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt, provided the existing Note holder writes off the amount of the indebtedness that cannot be refinanced into the new FHA-insured Mortgage.

Refinancing to Buy Out Title-Holder Equity

When the purpose of the new Mortgage is to refinance an existing Mortgage to buy out an existing title-holder's equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation. JMAC must obtain the divorce decree, settlement agreement, or other legally enforceable equity agreement to document the equity awarded to the title-holder.

Refinancing to Pay off Recorded Land Contracts

Not permitted.

Excess Cash Back

When the estimated costs utilized in calculating the maximum mortgage amount result in greater than \$500 cash back to the Borrower at mortgage Disbursement, JMAC may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement. JMAC must submit the Mortgage for endorsement at the reduced principle amount.

Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous Mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to mortgage Disbursement.

(ii) Required Documentation

JMAC must obtain the payoff statement on all existing Mortgages.

(c) Maximum Combined Loan-to-Value Ratio

The maximum **CLTV** ratio for a Rate and Term refinance is **97.75 percent**.

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For open-end line of credit JMAC must utilize the maximum accessible credit limit of the subordinate lien to calculate the CLTV ratio.

(B) Simple Refinance

(1) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Simple Refinance is only permissible for owner-occupied Principal Residences.

(ii) Required Documentation

JMAC must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property as their Principal Residence.

(b) Payment History Requirements

(i) Standard

For manually underwritten Mortgages with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For manually underwritten Mortgages with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all Mortgages. The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to mortgage Disbursement.

(ii) Required Documentation

If the Mortgage on the subject Property is not reported in the Borrower's credit report, JMAC must obtain a verification of Mortgage to evidence payment history for the previous 12 months, and the loan must be manually underwritten.

(2) Maximum Mortgage Amount

(a) Maximum LTV

The maximum LTV ratio for a Simple Refinance is:

- **97.75 percent** for Principal Residences; and

(b) Maximum CLTV

The maximum CLTV for a Simple Refinance is:

- **97.75 percent** for Principal Residences; and

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(3) Calculating Maximum Mortgage Amount for Simple Refinance Transactions

(a) Standard

The maximum mortgage amount for a Simple Refinance is:

- the lesser of:
 - the [Nationwide Mortgage Limit](#);
 - the Maximum LTV ratio from above; or
 - the sum of existing debt and costs associated with the transaction as follows:
- existing debt includes:
- unpaid principal balance of the FHA-insured first Mortgage as of the month prior to mortgage Disbursement;
- interest due on the existing Mortgage;
- MIP due on existing Mortgage;
- late charges; and
- escrow shortages;
- allowed costs include all Borrower paid costs associated with the new Mortgage; and
- Borrower-paid repairs required by the appraisal;
- less any refund of UFMIP (if financed in original Mortgage).

(c) Excess Cash Back

When the estimated costs utilized in calculating the maximum mortgage amount resulted in greater than \$500 cash back to the Borrower at mortgage Disbursement, JMAC may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement.

Cash to the Borrower resulting from the refund of Borrower's unused escrow balance from the previous Mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to mortgage Disbursement.

(d) Required Documentation

JMAC must obtain the payoff statement for the existing Mortgage being refinanced.

(4) Upfront and Annual Mortgage Insurance Premium

See [Appendix 1.0 – Mortgage Insurance Premiums](#) for assessing upfront and annual MIP.

(C) Streamline Refinances

Streamline Refinance may be used when the proceeds of the Mortgage are used to extinguish an existing FHA-insured first mortgage lien. JMAC must manually underwrite all Streamline Refinances in accordance with the guidance provided in this section.

(1) Streamline Refinance Exemptions

(a) Non-Credit Qualifying Exemptions

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Unless otherwise stated in this section, the following sections of [Origination through Post-Closing/Endorsement](#) do not apply to non-credit qualifying Streamline Refinances:

- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Borrower Minimum Decision Credit Score
- Borrower and Co-Borrower Ownership and Obligation Requirements
- Cosigner Requirements
- Principal Residence in the United States
- Military Personnel Eligibility
- Citizenship and Immigration Status
- Residency Requirements
- Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
- Delinquent Federal Tax Debt
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- LTV Limitations Based on Borrower's Credit Score
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard
- Credit Requirements (Manual)
- Income Requirements (Manual)
- Asset Requirements (Manual)
- Underwriting of Credit and Debt (Manual)
- Underwriting of Income (Manual)
- Underwriting of Assets (Manual)
- Calculating Qualifying Ratios (Manual)
- Approvable Ratio Requirements (Manual)
- Documenting Acceptable Compensating Factors (Manual)

(b) Credit Qualifying Exemptions

The following sections of [Origination through Post-Closing/Endorsement](#) do not apply to credit qualifying Streamline Refinances:

- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
- Delinquent Federal Tax Debt
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- LTV Limitations Based on Borrower's Credit Score
- Underwriting the Property

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- Underwriting the Borrower Using the TOTAL Mortgage Scorecard

(2) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Streamline Refinances may be used for Principal Residences, or non-owner occupied Properties.

(ii) Required Documentation

JMAC must obtain two utility bills to evidence that the Borrower currently occupies the Property as their Principal Residence.

JMAC must process the Streamline Refinance as a non-owner occupied Property if JMAC cannot obtain evidence that the Borrower occupies the Property as a Principal Residence.

(b) Payment History Requirements

(i) Standard

The Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all Mortgages. The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement.

(ii) Required Documentation

If the Mortgage on the subject Property is not reported in the Borrower's credit report, JMAC must obtain a verification of Mortgage to evidence payment history for the previous 12 months.

(3) Non-owner Occupied Properties

Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.

(4) General Information Applicable to All Streamline Refinances

(a) Mortgage Seasoning Requirements

On the date of the FHA case number assignment:

- the Borrower must have made at least six payments on the FHA-insured Mortgage that is being refinanced;
- at least six full months must have passed since the first payment due date of the Mortgage that is being refinanced;
- at least 210 Days must have passed from the closing date of the Mortgage that is being refinanced; and

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- if the Borrower assumed the Mortgage that is being refinanced, they must have made six payments since the time of assumption.

(b) Use of TOTAL Mortgage Scorecard on Streamline Refinances

JMAC must manually underwrite all Streamline Refinances. JMAC may score the Mortgage through TOTAL Mortgage Scorecard but the findings are invalid.

(c) Net Tangible Benefit of Streamline Refinances

(i) Definitions

A Net Tangible Benefit is a reduced Combined Rate, a reduced term, and/or a change from an ARM to a fixed rate Mortgage that results in a financial benefit to the Borrower.

Combined Rate refers to the interest rate on the Mortgage plus the Mortgage Insurance Premium (MIP) rate.

(ii) Standard

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

From	To		
	Fixed Rate New Combined Rate	One-Year ARM New Combined Rate	Hybrid ARM New Combined Rate
Fixed Rate	At least 0.5 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.
Any ARM With Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.

Reduction in Term

The net tangible benefit test is met if:

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- the mortgage term is reduced;
- the new interest rate does not exceed the current interest rate; and
- the combined principal, interest and MIP payment of the new Mortgage does not exceed the combined principal, interest and MIP of the refinanced Mortgage by more than \$50.

(d) HUD Employee Mortgage

For non-credit qualifying Streamline Refinances only, any HUD employee may have their Mortgage underwritten and approved/denied by JMAC.

(e) Reviewing Limited Denial Participation and SAM Exclusion Lists

JMAC must check the HUD [Limited Denial of Participation \(LDP\)](#) list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

JMAC must check the [System for Award Management \(SAM\)](#) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(f) Borrower Additions to Title

Individuals may be added to the title and Mortgage on a non-credit qualifying Streamline Refinance without a creditworthiness review.

(g) Borrower Credit Reports

JMAC requires a mortgage only credit report that reflects all mortgages on all properties owned by the borrower on the non-credit qualifying Streamline Refinance.

JMAC must obtain a complete [credit report](#) for the credit qualifying Streamline Refinance.

(h) Funds to Close

JMAC must verify Borrower's funds to close, **in excess** of the total Mortgage Payment of the new Mortgage, in accordance with [Sources of Funds](#).

(i) Maximum Mortgage Amortization Period

The maximum amortization period of a Streamline Refinance is limited to the lesser of:

- the remaining amortization period of the existing Mortgage plus 12 years; or
- 30 years.

(j) Maximum Mortgage Calculation for Streamline Refinances

(i) Standard

For owner-occupied Principal Residences the maximum Base Loan Amount for Streamline Refinances is:

- the lesser of:

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- the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus:
 - up to 60 days of interest due on the existing mortgage; or
- the original principal balance of the existing Mortgage (including financed UFMIP);
- less any refund of UFMIP (if financed in original Mortgage).

For Investment Properties, the maximum Base Loan Amount for Streamline Refinances is:

- the lesser of:
 - the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; or
 - the original principal balance of the existing Mortgage (including financed UFMIP);
- less any refund of UFMIP (if financed in original Mortgage).

Excess Cash Back

When the estimates utilized in calculating the maximum mortgage amount resulted in greater than \$500 cash back to the Borrower at mortgage Disbursement, JMAC may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement.

Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous Mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to mortgage Disbursement.

(ii) Required Documentation

JMAC must obtain the payoff statement on the existing Mortgage.

(k) Maximum CLTV Ratio and Subordinate Financing

Existing Subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance. New Subordinate financing is permitted only where the proceeds of the subordinate financing are used to:

- reduce the principal amount of the existing FHA-insured Mortgage, or
- finance the origination fees, other closing costs, or discount points associated with the refinance

There is no maximum CLTV. JMAC must contact the [National Servicing Center](#) for processing of any HUD held lien subordination.

(l) Appraisal and Inspection Requirements on Streamline Refinances

Appraisals are not required on Streamline Refinances. The receipt or possession of an appraisal by JMAC does not affect the eligibility or maximum mortgage amount on Streamline Refinances.

(m) Assessing Upfront and Annual MIP

See [Appendix 1.0 – Mortgage Insurance Premiums](#) for assessing upfront and annual MIP.

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For the purpose of calculating the MIP, FHA uses the original value of the Property to calculate the LTV.

(5) Streamline Refinance Non-Credit Qualifying

(a) Borrower Eligibility

A Borrower is eligible for a Streamline Refinance without credit qualification if all Borrowers on the existing Mortgage remain as Borrowers on the new Mortgage. Mortgages that have been assumed are eligible provided the previous Borrower was released from liability.

Exception

A Borrower on the Mortgage to be paid may be removed from title and new Mortgage in cases of divorce, legal separation or death when:

- the divorce decree or legal separation agreement awarded the Property and responsibility for payment to the remaining Borrower, if applicable; and
- the **remaining** Borrower can demonstrate that they have made the Mortgage Payments for a minimum of six months prior to case number assignment.
 - The six months of payments must have been **after** the date of the divorce, legal separation, or death.

(b) Special Documentation and Procedures for Non Credit-Qualifying Streamline Refinances

JMAC does not permit the disclosure of income on the Uniform Residential Loan Application (URLA, Fannie Mae Form 1003) in Section V or in the REO schedule of Section V. Disclosure of income will require the loan to be processed as a Credit Qualifying Streamline.

Income documentation may not be provided. Inclusion of any income documentation will require the loan to be processed as a Credit Qualifying Streamline.

(6) Streamline Refinance Credit Qualifying

(a) Borrower Eligibility

At least one Borrower from the existing Mortgage must remain as a Borrower on the new Mortgage.

(b) Credit Underwriting

In addition to the requirements in this section, credit qualifying Streamline Refinances must meet all requirements of [Manual Underwriting](#), except for any requirements for Appraisals or LTV Calculations.

b. New Construction

i. Definitions

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New Construction refers to Properties that are Proposed, Under Construction, or were completed within one year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing and placement of rebar is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing for Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

Pre-Approval refers to Properties that are less than one year old and meet one of the following requirements:

- the Property was appraised and JMAC issued form [HUD-92800.5B](#), *Conditional Commitment Direct Endorsement Statement of Appraised Value*, before construction started;
- a building permit or its equivalent has been issued by a local jurisdiction; or
- JMAC issued an Early Start Letter.

Early Start Letter refers to the document issued by JMAC in response to a builder's request to start construction before the appraisal is completed. The Early Start Letter indicates JMAC's approval of the Property before issuance of form [HUD 92800.5B](#) and without affecting the maximum mortgage amount. JMAC can issue the Early Start Letter if local jurisdiction has issued a building permit and a case number has been assigned.

Ten-year warranty refers to an agreement between the Borrower and a plan issuer which contains warranties regarding the construction and structural integrity of the Borrower's dwelling securing the FHA-insured Mortgage. The plan must be a [HUD-accepted insured ten-year protection plan](#).

ii. Inspections or Warranties for Maximum Financing

(A) Site Built Housing and Condominiums (By Construction Status at Time of Appraisal)

(1) Proposed Construction

JMAC must obtain one of the following:

- copies of the building permit and CO (or equivalent);
- three inspections (footing, framing and final) performed by an FHA Roster Inspector on form [HUD-92051](#), *Compliance Inspection Report* (for Modular Housing, footing and final only);
- three inspections (footing, framing and final) performed by the local authority with jurisdiction over the Property (for Modular Housing, footing and final only); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the Property or an FHA Roster Inspector.

(2) Under-Construction

JMAC must obtain:

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- copies of the building permit and CO (or equivalent); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the Property or an FHA Roster Inspector.

(3) Existing for Less than One Year (100 Percent Complete)

JMAC must obtain:

- copies of the building permit and CO (or equivalent); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the Property or an FHA Roster Inspector; or
- an appraisal evidencing Property is 100 percent complete.

iii. Required Documentation for Maximum Financing

JMAC must obtain and include the following documents in the case binder:

- Form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*;
- Form [HUD-92544](#), *Warranty of Completion of Construction*;
- Evidence that the Property was pre-approved or the 10-year warranty plan:
 - Evidence of pre-approval is the Early Start Letter or copy of building permit issued by local authority prior to start of construction.
 - For a 10-year warranty plan, evidence of acceptance or enrollment in the plan is required; the application alone is not acceptable.
- Required inspections;
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "[Termite Treatment Exception Areas](#)" list:
 - Form [HUD-NPMA-99-A](#), *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. JMAC must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
 - Form [HUD-NPMA-99-B](#), *New Construction Subterranean Termite Service Record*, is required when the proposed Property is treated with a soil chemical termiticide. JMAC must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

iv. Financing LTV Limit

Properties that are Under Construction or Existing for Less than One Year are limited to a 90 percent LTV unless they meet the [Pre-Approval requirements](#) or are covered with a [HUD-accepted insured ten-year protection plan](#), and they meet the [Required Documentation for Maximum Financing](#).

For a Mortgage with an LTV of 90 percent or less, JMAC must obtain:

- Form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*;
- Final inspection or appraisal, if the Property is 100 percent complete;

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- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "[Termite Treatment Exception Areas](#)" list:
 - Form [HUD-NPMA-99-A](#), *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. JMAC must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
 - Form [HUD-NPMA-99-B](#), *New Construction Subterranean Termite Service Record*, is required when the proposed Property is treated with a soil chemical termiticide. JMAC must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

v. Documents to be Provided to Appraiser at Assignment

JMAC must provide the Appraiser with a fully executed form [HUD-92541](#), signed and dated no more than 30 Days prior to the date the appraisal was ordered.

For Properties 90 percent completed or less, JMAC must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow the Appraiser to determine the size and level of finish of the house they are appraising.

For Properties greater than 90 percent but less than 100 percent completed, JMAC must provide the Appraiser with a list of components to be installed or completed after the date of inspection.

vi. Property Considerations

New Construction must meet HUD Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

vii. Mortgagee Review of Appraisal

(A) Site Considerations

(1) Environmental

JMAC must require corrective work to mitigate any condition that arises during construction that may affect the health and safety of the occupants, the Property's ability to serve as collateral, or the structural soundness of the improvements.

(2) Operating Oil or Gas Wells

If a proposed or newly constructed dwelling is located within 75 feet of an operating oil or gas well, JMAC must reject the Property unless mitigation measures are completed.

(3) Slush Pits

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If a Property is Proposed Construction near an active or abandoned Slush Pit, the Appraiser must require a survey to locate the pit. JMAC is to assess any impact on the subject Property.

(4) Special Airport Hazards

If a proposed or newly constructed Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, JMAC must reject the Property for insurance.

A proposed or newly constructed Property located in Accident Potential Zone I at military airfields may be eligible for FHA mortgage insurance provided that JMAC determines that the Property complies with Department of Defense guidelines.

(5) Flood Hazard Areas

If any portion of the property improvements (the dwelling and related Structures/equipment essential to the value of the Property and subject to flood damage) is located within a Special Flood Hazard Area (SFHA), JMAC must reject the Property, unless:

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or
- JMAC obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate ([FEMA Form 81-31](#)), that documents that the lowest floor (including the basement) of the residential building and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria. JMAC must ensure that the flood elevation certificate is prepared by a licensed engineer or surveyor and completed based on finished construction.

JMAC must include the LOMA, LOMR, or flood elevation certificate with the case when it is submitted for endorsement.

JMAC must ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the Property remains located within an SFHA.

(6) Individual Water Supply Systems (Wells)

JMAC must ensure that new wells are drilled and are no less than 20 feet deep and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.

A well located within the foundation walls of New Construction is not acceptable except in arctic or sub-arctic regions.

The following tables provide the minimum distance required between wells and sources of pollution:

Water Well location Minimum Property Standards for New Construction

24 CFR § 200.926d(f)(3)(iv)*

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1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

Individual Water System Minimum Property Standards for New Construction	
24 CFR § 200.926d(f)(1) and (2)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

(7) Shared Well

A Shared Well is permitted only if JMAC obtains evidence that:

- it is not feasible to serve the housing by an acceptable public or Community Water System; and



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- the housing is located in an area other than in an area where local officials have certified that installation of public or adequate Community Water Systems and sewer systems are economically feasible.

(B) Sales Comparison Approach: Comparable Selection

For Properties in new subdivisions, the selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project.

viii. Completion of Construction

Regardless of the inspection process used, JMAC must certify on form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, that the Property is 100 percent complete and meets HUD's MPR and MPS.

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c. Building on Own Land

i. Definition

Building on Own Land refers to a product of the 203(b) program used to finance the construction of a dwelling on land already owned by the Borrower for greater than 6 months from case number assignment.

ii. Borrower Eligibility

The Borrower must have contracted with a builder to construct the improvements. The builder must be a licensed general contractor. The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

iii. Maximum Mortgage Amount

JMAC must use the lesser of the Property Value or the documented Acquisition Cost to determine the Adjusted Value.

The documented Acquisition Cost of the Property includes:

- builder's price or the sum of all subcontractor bids and materials;
- value of the land as shown in the site value of the appraisal; and
- interest and other costs associated with a construction loan obtained by the Borrower to fund construction.

iv. Minimum Required Investment

The Mortgage is calculated using the [purchase Loan-to-Value \(LTV\)](#) limits. The Settlement Statement or similar legal document may be prepared as a refinance transaction. JMAC must document any Borrower required funds to close are from an acceptable source of funds in accordance with [TOTAL](#) or [manual underwriting](#) requirements as applicable.

If the land was given as a gift to the Borrower, JMAC must verify that the donor was not a prohibited source.

JMAC must obtain standard gift documentation for any gift of land.

v. Borrower's Additional Equity in the Property

The Borrower may not receive cash back from the additional equity in the Property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price. JMAC must obtain an itemization of the extras and expenses and the cost of each item.

vi. Required Documentation

JMAC must comply with general [New Construction](#) requirements.



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JMAC must document the date of purchase of the land by obtaining the Settlement Statement or similar legal document.

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d. HUD Real Estate Owned Purchasing

i. Definition

(A) HUD REO Property

A HUD Real Estate Owned (REO) Property, also known as a HUD Home or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure or other means of acquisition on an FHA-insured Mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to JMAC.

(B) Insured HUD REO Property Purchase

An Insured HUD REO Property Purchase refers to the purchase of a HUD REO Property by a Borrower with a new FHA-insured Mortgage.

(C) Insured HUD REO Property Purchase Programs

(1) Section 203(b)

The HUD REO Property meets HUD's Minimum Property Requirements (MPR) in its as-is condition with no repairs, alterations, or inspections required.

(2) Section 203(b) With Repair Escrow

The HUD REO Property does not meet HUD's MPR in its as-is condition, but if repairs of no more than \$5,000 are completed, the HUD REO Property would meet HUD's MPR. An escrow account to complete the repairs necessary to meet MPR after closing is required. JMAC does not offer Repair Escrows. Repairs would need to be completed prior to closing, and the purchase contract updated to reflect section 203(b) financing.

(3) Section 203(k)

The HUD REO Property does not qualify for Section 203(b) or Section 203(b) with Repair Escrow, and is eligible for FHA-insured financing only under Section 203(k). JMAC does not offer 203(k) financing. Property would be ineligible.

(D) Special Sales Incentives

(1) Good Neighbor Next Door

JMAC does not provide financing for properties with this incentive.

(2) \$100 Down

The \$100 Down sales incentive permits a Borrower to purchase a HUD REO Property with FHA-insured financing with a minimum down-payment of \$100.

\$100 Down purchases may be processed as Section 203(b)

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ii. Sales Contract and Required Supporting Documentation

(A) General

JMAC must obtain form HUD-9548, *Sales Contract Property Disposition Program*, and any applicable addenda, which will establish the purchase price, price discount, eligibility for GNND and eligibility for \$100 Down, and meet the requirements for the [Sales Contract](#).

(B) Contract Sales Terms

Line 4 of the sales contract will specify the Insured HUD REO Property Purchase Program under which the Borrower is applying, the down-payment, and the mortgage amount.

Regardless of the Insured HUD REO Property Purchase Program entered on Line 4 of form HUD-9548, JMAC must determine the eligibility of the Property, the eligibility of the Borrower, and the specific Insured HUD REO Property Purchase Program that must be used to finance the purchase.

(C) \$100 Down

Where the Borrower has been approved for the \$100 Down sales incentive, the amount of the cash down-payment specified on Line 4 will be \$100.

(D) Closing Costs and Sales Commissions Paid by HUD

The amount on Line 5 specifies the amount of closing costs that HUD will pay on behalf of the Borrower. The amounts on Line 6a and 6b represent the sales commissions HUD will pay to the selling and listing broker.

Contributions by HUD toward the Borrower's closing costs are not defined as Interested Party Contributions ([TOTAL](#) or [Manual](#)) or Inducements to Purchase ([TOTAL](#) or [Manual](#)).

iii. Ordering Case Numbers

(A) Section 203(b)

JMAC must order case numbers for Insured HUD REO Property Purchases in accordance with [Ordering Case Numbers](#).

JMAC must select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO Property in the Prior Case Number field. The HUD REO Property case number can be found on the top right-hand corner of form HUD-9548.

iv. Appraisals

(A) Ordering Appraisals

The appraisal must be requested as a HUD REO appraisal

(B) Appraisal Review and Property Acceptability

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JMAC must review the appraisal and property conditions in accordance with the requirements of [Underwriting the Property](#).

v. Occupancy Types

(A) Principal Residence

An Owner-Occupant Borrower may purchase HUD REO Properties using Section 203(b) financing.

vi. Maximum Mortgage Amounts

(A) Section 203(b)

JMAC must calculate the maximum mortgage amounts in accordance with the requirements of [Calculating Maximum Mortgage Amounts for Purchases](#), using the applicable Loan-To-Value ratio (LTV) from this section, subject to [LTV Limitations Based on Borrower's Credit Score](#).

(1) Owner-Occupant Borrower

The maximum LTV is **96.5 percent**.

(B) \$100 Down

(1) Section 203(b)

JMAC must calculate the maximum mortgage amount by subtracting \$100 from the Adjusted Value.

vii. Additional \$100 Down Requirements for FHAC Insuring Application

In the \$100 REO Down-payment Program field, JMAC must enter "Yes."

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PART B. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES

The appraisal process provides JMAC with necessary information to determine if a property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA insured Mortgage. JMAC bears primary responsibility for determining eligibility and the sufficiency of collateral; however, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.

Property refers to the real estate entity that will serve as adequate security for a specific FHA insured Mortgage.

The requirements in this section of the *FHA Single Family Housing Policy Handbook (SF Handbook)* contain the Property Acceptability Criteria for FHA mortgage insurance, which include Minimum Property Requirements (MPR) and Minimum Property Standards (MPS), and include by reference, associated rules and regulations. The criteria apply to residential Properties containing one- to four-family housing units, individual condominium units, and related property improvements and the sites on which they are located, as well as the immediate environment for the dwelling, including streets and other services or facilities associated with the site. This section also provides requirements for Appraisers in establishing a credible appraised value for a Property that is to serve as security for an FHA-insured Mortgage.

1. Commencement of the Appraisal

a. Information Required before Commencement of Appraisal

The Appraiser must obtain all of the following from JMAC before beginning an appraisal:

- a complete copy of the executed sales contract for the subject, if a purchase transaction;
- the land lease, if applicable;
- surveys or legal descriptions, if available;
- any other legal documents contained in the loan file; and
- a point of contact and contact information for JMAC so that the Appraiser can communicate any noncompliance issues.

b. Additional Information Required Before Commencement of an Appraisal on New Construction

The Appraiser must obtain, from JMAC, a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, dated no more than 30 Days prior to the date of the appraisal order and documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished.

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2. General Appraiser Requirements

The Appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of Property used as security for FHA-insured Mortgages.

When performing an appraisal, the Appraiser must review and analyze the following:

- the land lease, if applicable;
- surveys or legal descriptions, if available; and
- any other legal documents contained in the loan file, and report the results of that analysis in the appraisal report.

Sales Transaction or New Construction

When performing an appraisal for a sales transaction or on New Construction, the Appraiser must also review and analyze the following:

- the complete copy of the executed sales contract for the subject; and
- documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished; and report the results of that analysis in the appraisal report.

3. Acceptable Appraisal Reporting Forms and Protocols

The Appraiser must complete the Fannie Mae Form 1004 MC/Freddie Mac Form 71, *Market Conditions Addendum to the Appraisal Report*, for every appraisal. Other forms to be used in the completion of an FHA appraisal are as follows:

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property	Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report (URAR)</i> ; Mortgage Industry Standards Maintenance Organization (MISMO) 2.6 Government-Sponsored Enterprise (GSE) format
Single Unit Condominium	Fannie Mae Form 1073/Freddie Mac Form 465, <i>Individual Condominium Unit Appraisal Report</i> ; MISMO 2.6 GSE format
Small Residential Income Properties (Two to Four Units)	Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i> ; MISMO 2.6 Errata 1 format
Compliance or Final Inspection for New Construction	Form HUD-92051, <i>Compliance Inspection Report</i> , in Portable Document Format (PDF)

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Compliance or Final Inspection for Existing Property	Certification of Completion Section of Fannie Mae Form 1004D/Freddie Mac Form 442, <i>Appraisal Update and/or Completion Report</i> ; MISMO 2.6 Errata 1 format
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Instructions detailing specific requirements for reporting the results of the appraisal, including data and file format and delivery are found in the [FHA Single Family Housing Appraisal Report and Data Delivery Guide](#).

a. Additional Documentation Required for Appraisals of New Construction

When New Construction is less than 90% complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90% or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

Appraiser Responsibility to Report Property Compliance

The Appraiser must observe, analyze and report that the Property meets HUD's MPR and MPS.

Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness and security of New Construction.

Every Property must be safe, sound, and secure so that JMAC can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with FHA's MPR and MPS.

b. Application of Minimum Property Requirements and Minimum Property Standards by Construction Status

i. Existing Construction

(A) Definition

Existing Construction refers to a Property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

(B) Standard

For Existing Construction, the Appraiser must notify JMAC of the deficiencies when the Property does not comply with FHA's MPR.

ii. New Construction

(A) Definition

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New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year.

Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.

Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.

Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

(B) Standard

For New Construction, the Appraiser must notify JMAC of the deficiencies when the Property does not comply with FHA's MPR and MPS, including 24 CFR §§ 200.926a-200.926e.

iii. Determination of Defective Conditions

(A) Definition

Defective Conditions refer to defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants, collateral security or structural soundness of the dwelling.

(B) Standard

The Appraiser must identify readily observable defective conditions.

Defective Conditions Requiring Repair

The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR, and provide an estimated cost to cure.

iv. Inspection by a Qualified Individual or Entity

If the Appraiser cannot determine that a Property meets FHA's MPR or MPS, an inspection by a qualified individual or Entity may be required.

Conditions that require an inspection by qualified individuals or Entities include:

- standing water against the foundation and/or excessively damp basements;
- hazardous materials on the site or within the improvements;
- faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
- evidence of possible pest infestation;
- leaking or worn-out roofs; or

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- any other condition that in the professional judgment of the Appraiser warrants inspection.

Appraisers may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

Required Analysis and Reporting

The Appraiser must observe, analyze and report defective conditions and must also provide photographic documentation of those conditions in the appraisal report.

If inspection is required, the Appraiser must cite the reason for requiring an inspection.

c. Minimum Property Requirements and Minimum Property Standards

MPR and MPS form the basis for identifying the deficiencies of the Property that the Appraiser must note within the appraisal report.

i. Legal Requirements

(A) Real Estate Entity

The Appraiser must contact JMAC if the subject Property is not a single, marketable real estate entity, and/or does not consist of a primary plot with a secondary plot contributing to the use and marketability of the Property as a single marketable real estate entity.

(B) Property Rights

(1) Definition

Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

Leasehold refers to the right to hold or use Property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

(2) Standard

An Appraiser must contact JMAC if the property rights to be appraised are not on real estate held in Fee Simple or Leasehold that comply with HUD's requirements below.

(C) Planned Unit Development

(1) Definition

A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

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(2) Standard

An Appraiser must contact JMAC if the Property is located in a PUD that does not meet this definition.

(D) Leasehold Interests

(1) Definition

Leasehold Interests refer to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

(a) Forward Mortgage Requirements

A Mortgage secured by real estate under Leasehold requires a renewable lease with a term of not less than 99 years, or a lease that will extend not less than 10 years beyond the maturity date of the Mortgage. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

(3) Required Analysis and Reporting

An Appraiser must contact JMAC if the Leasehold Interest does not meet this requirement.

ii. Legal and Land Use Considerations

(A) Party or Lot Line Wall

(1) Standard

A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.

(2) Required Analysis and Reporting

The Appraiser must note if the party or lot line wall does not extend to the roof or beyond.

(B) Non-Residential Use of Property

(1) Standard

The non-residential portion of the total floor area may not exceed 49 percent.

Any non-residential use of the Property must be subordinate to its residential use, character and appearance. Non-residential use may not impair the residential character or marketability of the Property. The non-residential use of the Property must be legally permitted and conform to current zoning requirements.

(2) Required Analysis and Reporting

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The Appraiser must calculate the non-residential portion of any residential Property. Storage areas or similar spaces that are integral parts of the nonresidential portion must be included in the calculation of the non-residential area.

The Appraiser must comment on any non-residential use within the Property and state the percentage of the total floor area that is utilized as non-residential. The Appraiser must report whether the non-residential usage is legal and in compliance with current zoning requirements.

The Appraiser must contact JMAC if the non-residential portion of the Property exceeds 49 percent.

(C) Zoning

(1) Standard

FHA requires the Property to comply with all applicable zoning ordinances.

(2) Required Analysis and Reporting

The Appraiser must determine if current use complies with zoning ordinances.

If the existing Property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the Appraiser must report the Property as "Legal Non-Conforming" and provide a brief explanation. The Appraiser must analyze and report any adverse effect that the non-conforming use has on the Property's value and marketability, and state whether the Property may be legally rebuilt if destroyed.

(D) Encroachments

(1) Definition

An Encroachment refers to an interference with or intrusion onto another's property.

(2) Standard

The Appraiser must report the presence of any Encroachments so that JMAC can determine eligibility.

(3) Required Analysis and Reporting

The Appraiser must identify any Encroachments of the subject's dwelling, garage, or other improvement onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Appraiser must also identify any Encroachments of a neighboring dwelling, garage, other physical Structure or improvements onto the subject Property.

The Appraiser must notify JMAC if, upon observation, it appears that an Encroachment affects the subject Property.

(E) Easements and Deed Restrictions

(1) Definition

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An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

A Deed Restriction refers to a private agreement that restricts the use of real estate in some way, and is listed in the deed.

(2) Standard

The Appraiser must note the presence of any Easements and Deed Restrictions to assist JMAC in determining eligibility.

(3) Required Analysis and Reporting

The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plats when available through the normal course of business.

iii. Externalities

(A) Definition

Externalities refer to off-site conditions that affect a Property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas lines, Overhead Electric Power Transmission Lines and Local Distribution Lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

(B) Standard

The Appraiser must report the presence of Externalities so that JMAC can determine eligibility.

(C) Required Analysis and Reporting

The Appraiser must consider how Externalities affect the marketability and value of the Property, report the issue and the market's reaction, and address any positive or negative effects on the value of the subject Property within the approaches to value.

(1) Heavy Traffic

The Appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.

(2) Airport Noise and Hazards

The Appraiser must identify if the Property is affected by noise and hazards of low flying aircraft because it is near an airport. The Appraiser must review airport contour maps and analyze accordingly. The Appraiser must determine and report the marketability of the Property based on this analysis.

(3) Special Airport Hazards

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The Appraiser must identify if the Property is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.

For Properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, the Appraiser must require compliance with the Department of Defense (DoD) Guidelines and a buyer's acknowledgement.

(a) Existing Dwelling

The Appraiser must condition the appraisal on the Borrower's acknowledgment of the hazard.

(b) Proposed Construction, Under Construction, and Existing Less than One Year

The Appraiser must note that the Property is ineligible for FHA insurance and notify JMAC.

(4) Proximity to High Pressure Gas Lines

The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both aboveground and subsurface. The Appraiser must determine and report the marketability of the Property based on this analysis.

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the Property is not located more than 10 feet from the nearest boundary of the pipeline Easement.

(5) Overhead Electric Power Transmission and Local Distribution Lines

(a) Definitions

Overhead Electric Power Transmission Lines refer to electric lines that supply power from power generation stations to Local Distribution Lines.

Local Distribution Lines refer to electric lines that commonly supply power to residential housing developments, similar facilities and individual Properties.

(b) Required Analysis and Reporting

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the Overhead Electric Power Transmission Lines or the Local Distribution Lines pass directly over any dwelling, Structure or related property improvement, including pools, spas, or water features.

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the dwelling or related property improvements are located within an Easement or if they appear to be located within an unsafe distance of any power line or tower.

The Appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances. The Appraiser must also determine if the guidelines for [Encroachments](#) apply.

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(6) Smoke, Fumes and Offensive or Noxious Odors

The Appraiser must notify JMAC if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.

The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.

(7) Stationary Storage Tanks

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the subject property line is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material. This includes domestic and commercial uses as well as automotive service station tanks.

iv. Site Conditions

(A) Access to Property

(1) Definition

Adequate Vehicular Access to Property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.

(2) Required Analysis and Reporting

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the Property does not have safe pedestrian access and Adequate Vehicular Access from a public street or private street that is protected by a permanent recorded Easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

The Appraiser must note whether there is safe pedestrian access and Adequate Vehicular Access to the site and analyze any effect on value or marketability.

The Appraiser must report evidence of a permanent Easement.

The Appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.

(B) Onsite Hazards and Nuisances

(1) Definition

Onsite Hazards and Nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the Property.

(2) Standard

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The Appraiser must report the presence of all Onsite Hazards and Nuisances so that JMAC can determine eligibility and any corrective work that may be necessary to mitigate potential adverse effects from the special conditions.

(3) Required Analysis and Reporting

The Appraiser must note and comment on all Onsite Hazards and Nuisances affecting the Property. The Appraiser must also provide photographs of potential problems or issues to assist JMAC in understanding the problem.

Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

New and Proposed Construction

The Appraiser must report any special conditions that may exist or arise during construction and necessitate precautionary or hazard mitigation measures.

(C) Topography

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.

The Appraiser must make the appraisal subject to an inspection by a qualified individual or Entity if the purchase contract or any other documentation indicates, or if the Appraiser observes dampness because of a foundation issue.

The Appraiser must report to JMAC any danger due to topographic conditions (e.g., earth and mudslides from adjoining properties, falling rocks and avalanches) to the subject Property or the adjoining land.

(D) Grading and Drainage

The Appraiser must check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation.

The Appraiser must make the appraisal subject to repair if the grading does not provide positive drainage away from the improvements. The Appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage. The Appraiser must report this in the "Site" section of the report, if the standing water is problematic.

(E) Suitability of Soil

The Appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.

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The Appraiser should also consider events and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

The Appraiser must analyze and report how this would affect the Property.

(F) Subsidence and Sinkholes

(1) Definition

Land Subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

(2) Standard

Danger of Land Subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsoil or subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes or settlement problems.

(3) Required Analysis and Reporting

The Appraiser must notify JMAC of the deficiency of MPR or MPS if there is probable or imminent danger of Land Subsidence so that JMAC can determine eligibility or the need to require the purchase of subsidence insurance.

The Appraiser must analyze and report any readily observable conditions of the surface of the land that indicate potential problems from subsidence or the potential for lack of support for the surface of the land or building foundations.

In mining areas, the Appraiser must analyze and report the depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable or negligible.

(G) Oil or Gas Wells

(1) Operating or Proposed

The Appraiser must examine the site for the existence of any readily observable evidence of an oil or gas well and report the distance from the dwelling.

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the dwelling is located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.

(2) Abandoned

If the Appraiser notes an abandoned gas or oil well on the subject site or an adjacent Property, the Appraiser must stop work and notify JMAC.

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The Appraiser may resume work when JMAC provides a letter from local jurisdiction or the appropriate state agency, stating that the subject well was permanently abandoned in a safe manner.

The Appraiser may only complete the appraisal on a Property located near a gas well that emits hydrogen sulfide if the minimum clearance has been established by a petroleum engineer. The Appraiser must assess any impact that the location of the well has on the value and marketability of the Property.

Hydrogen Sulfide

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

The Appraiser may only complete an appraisal on a Property if JMAC has required an inspection by a qualified person and provided evidence that the minimum clearance has been established.

(H) Slush Pits

(1) Definition

A Slush Pit refers to a basin in which drilling “mud” is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

(2) Required Analysis and Reporting

If the Property has a Slush Pit, the Appraiser must make the appraisal subject to the removal of all unstable and toxic materials and the site made safe.

(I) Property Eligibility in Special Flood Hazard Areas

The Appraiser must review the Federal Emergency Management Agency (FEMA) [Flood Insurance Rate Map](#) (FIRM) and make appropriate notations on the applicable appraisal reporting form. If the Property appears to be located within a [Special Flood Hazard Area](#) (SFHA), the Appraiser must attach a copy of the flood map panel to the appraisal report.

The Appraiser must enter the FEMA zone designation on the reporting form, and identify the map panel number and map date. If the Property is not shown on any map, the Appraiser must enter “not mapped.” The Appraiser must quantify the effect on value, if any, for Properties situated within a designated SFHA.

(J) Coastal Barrier Resources System

The Appraiser must stop work and notify JMAC of the deficiency of MPR or MPS if the Property is located within a [Coastal Barrier Resources System](#) (CBRS) designated area.

The Appraiser must review the FEMA FIRM to determine if a Property is located within a CBRS. The FIRM will identify CBRS boundaries through patterns of backward-slanting diagonal lines, both solid

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and broken. If it appears that the Property is located in a CBRS, the Appraiser must review [CBRS location maps](#) to confirm.

(K) Lava Zones

When a Property is located in Hawaii, the Appraiser must review the U.S. Geological Survey (USGS) [Lava Flow Hazard Zone maps](#). The Appraiser must notify JMAC of the deficiency of MPR or MPS if the Property is located in Zones 1 or 2.

The Appraiser must report in the "Comments" section that the Property is in the Lava Flow Hazard Zone and provide the Zone Number.

(L) Mineral, Oil, and Gas Reservations or Leases

The Appraiser must analyze and report the degree to which the residential benefits may be impaired or the Property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The Appraiser should consider the following:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- the hazards, nuisances, or damages that may arise or accrue to the subject Property from exercise of reservation or lease privileges on neighboring properties.

(M) Soil Contamination

(1) Definition

Soil Contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.

(2) Standard

Conditions that indicate Soil Contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

(3) Required Analysis and Reporting

The Appraiser must check readily observable evidence of Soil Contamination and hazardous substances in the soil. The Appraiser must report the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject Property.

(N) Residential Underground Storage Tanks

The Appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or onsite contamination, the Appraiser must make a requirement for further inspection.

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v. New Construction Site Analysis

The Appraiser must obtain a fully executed form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed Construction, Properties Under Construction or Properties Existing Less than One Year.

The Appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the Appraiser's observations.

vi. Excess and Surplus Land

(A) Definition

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

(B) Required Analysis and Reporting

The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser's conclusion of the existence of Excess Land. The Appraiser must include Surplus Land in the valuation.

If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

vii. Characteristics of Property Improvements

(A) Requirements for Living Unit

The Appraiser must notify JMAC of the deficiency of MPR or MPS if each living unit does not contain any one of the following:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;

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- domestic hot water; or
- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units.

(B) Access to Living Unit

The Appraiser must notify JMAC of the deficiency of MPR or MPS if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

For attached dwellings, the access may be by means of alley, Easement, common area or passage through the dwelling.

The Appraiser must report when the Property has security bars on bedroom windows or doors.

(C) Non-Standard House Styles

(1) Definition

Non-Standard House Style refers to unique Properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower than normal ceiling heights, and other houses that in the Appraiser's professional opinion, are unique.

(2) Required Analysis and Reporting

The Appraiser must provide a comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a Property to be fully marketable, the Appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.

The Appraiser may require additional education, experience, or assistance for these types of Properties.

(D) Modular Housing

(1) Definition

Modular Housing refers to Structures constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house. Although quality can vary, all of the materials – from framing, roofing and plumbing to cabinetry, interior finish and electrical – are identical to what is found in comparable quality conventional “stick-built” housing.

(2) Required Analysis and Reporting

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The Appraiser must treat Modular Housing the same as stick-built housing, including reporting the appraisal on the same form. The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing or Manufactured Housing.

(E) Identifying an Accessory Dwelling Unit

(1) Definition

An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

(2) Required Analysis and Reporting

As part of the highest and best use analysis, the Appraiser must make the determination to classify the Property as a Single Family dwelling with an ADU, or a two-family dwelling. The conclusion of the highest and best use analysis will then determine the classification of the Property and the analysis and reporting required.

An ADU is usually subordinate in size, location and appearance to the primary Dwelling Unit and may or may not have separately metered utilities or separate means of ingress or egress. The Appraiser must not include the living area of the ADU in the calculation of the Gross Living Area (GLA) of the primary dwelling.

The Appraiser must notify JMAC of the deficiency in MPR or MPS if more than one ADU is located on the subject Property.

(F) Additional Manufactured Home on Property

The Appraiser may consider a Manufactured Home to be an ADU if it meets the highest and best use and FHA requirements.

The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

(G) Leased Equipment, Components, and Mechanical Systems

The Appraiser must not include the value of leased mechanical systems and components in the Market Value of the subject Property. This includes furnaces, water heaters, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the property owner. The Appraiser must identify such systems in the appraisal report.

d. Gross Living Area

i. Definition

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Gross Living Area (GLA) refers to the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure. It includes only finished, habitable, above-grade living space.

ii. Required Analysis and Reporting

The Appraiser must:

- identify non-contiguous living area and analyze its effect on functional utility;
- ensure that finished basements and unfinished attic areas are not included in the total GLA; and
- use the same measurement techniques for the subject and comparable sales, and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

In the case of non-standard Properties and floor plans, the Appraiser must observe, analyze, and report the market expectations and reactions to the unique Property.

iii. Additions and Converted Space

The Appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space:

- is accessible from the interior of the main dwelling in a functional manner;
- has a permanent and sufficient heat source; and
- was built in keeping with the design, appeal, and quality of construction of the main dwelling.

Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the sales grid, not in the GLA. The Appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as Contributory Value, if any.

The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space. If the Appraiser chooses to include converted living spaces as GLA, the Appraiser must include an explanation detailing the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and market reaction.

Alternatively, the Appraiser may consider and analyze converted living spaces on a separate line within the sales comparison grid including the functional utility line in order to demonstrate market reaction.

The Appraiser must not add an ADU or secondary living area to the GLA.

iv. Partially Below-Grade Habitable Space

(A) Definition

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Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.

(B) Required Analysis and Reporting

The Appraiser must report the design and measurements of the subject, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.

Regardless of the description of the rooms, bedrooms or baths as above grade or below grade, the Appraiser must analyze all components of the subject Property in the valuation process.

v. Bedrooms

The Appraiser must not identify a room as a bedroom that cannot accommodate ingress or egress in the event of an emergency, regardless of location above or below grade.

e. Appliances

i. Definition

Real Property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

ii. Standard

Cabinets and built-in appliances that are considered Real Property must be present and operational.

iii. Required Analysis and Reporting

The Appraiser must note appliances present in the house at the time of observation and indicate whether that appliance is considered Personal Property or Real Property. The Appraiser must operate all conveyed appliances and observe their performance.

The Appraiser must notify JMAC of the deficiency of MPR or MPS if any conveyed appliances are inoperable.

f. Swimming Pools

The Appraiser must report readily observable defects in a non-covered pool that would render the pool inoperable or unusable. If the pool water contains algae and is aesthetically unappealing, but the Appraiser has no evidence that the pool is otherwise contaminated, no cleaning is required. Swimming pools must be operational to provide full Contributory Value.

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The Appraiser must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines, and the surrounding land re-graded if necessary.

If the swimming pool has been winterized, or the Appraiser cannot determine if the pool is in working order, the Appraiser must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to full operating condition at normal costs.

g. Mechanical Components and Utilities

The Appraiser must notify JMAC of the deficiency of MPR or MPS if mechanical systems are not safe to operate; not protected from destructive elements; do not have reasonable future utility, durability and economy; or do not have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance.

If the systems are damaged or do not function properly, the Appraiser must condition the appraisal on its repair or further inspection.

If the Property is vacant, the Appraiser must note in the report whether the utilities were on or off at the time of the appraisal.

If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:

1. render the appraisal as subject to re-observation;
2. condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
3. complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional.

If systems could not be operated due to weather conditions, the Appraiser must clearly note this in the report. The Appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the Appraiser cannot determine if one or all of these systems are working properly.

i. Heating and Cooling Systems

The Appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

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The Appraiser must notify JMAC of the deficiency of MPR or MPS if the permanently installed heating system does not:

- automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;
- provide healthful and comfortable heat or is not safe to operate;
- rely upon a fuel source that is readily obtainable within the subject's geographic area;
- have market acceptance within the subject's marketplace; and
- operate without human intervention for extended periods of time.

Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the Appraiser must indicate the level of deferred maintenance, analyze and report the effect on marketability, and include the cost to cure.

ii. Electrical System

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.

The Appraiser must examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amperage and panel size appears inadequate for the Property. The Appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. The Appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical device or control.

iii. Plumbing System

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the plumbing system does not function to supply water pressure, flow and waste removal.

The Appraiser must flush the toilets and operate a sample of faucets to check water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there is no readily observable evidence of leaks or structural damage under fixtures.

The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

If the Property has a septic system, the Appraiser must examine it for any signs of failure or surface evidence of malfunction. If there are deficiencies, the Appraiser must require repair or further inspection.

h. Roof Covering

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the roof covering does not prevent entrance of moisture or provide reasonable future utility, durability and economy of maintenance and does not have a remaining physical life of at least two years.

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The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility. The Appraiser must identify the roofing material type and the condition observed in the "Improvements" section of the report.

The Appraiser must report if the roof has less than two years of remaining life, and make the appraisal subject to inspection by a professional roofer.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

i. Structural Conditions

The Appraiser must report on structural conditions so that JMAC can determine if the foundation and Structure of the Property will be serviceable for the life of the Mortgage.

The Appraiser must perform a visual observation of the foundation and Structure of the improvements and report those results. If the Appraiser notes any structural issues, the Appraiser must address the nature of the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

j. Defective Paint

If the dwelling or related improvements were built after 1978, the Appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements.

If the dwelling or related improvements were built on or before December 31, 1978, refer to the section on [Lead-Based Paint](#).

k. Attic Observation Requirements

The Appraiser must observe the interiors of all attic spaces.

The Appraiser is not required to disturb insulation, move personal items, furniture, equipment or debris that obstructs access or visibility. If unable to view the area safely in their entirety, the Appraiser must contact JMAC and reschedule a time when a complete visual observation can be performed, or complete the appraisal subject to inspection by a qualified third party. In cases where access through a scuttle is limited and the Appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the Appraiser will suffice.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the Appraiser must report this condition, and render the appraisal subject to inspection and repairs if necessary.

If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

An observation performed in accordance with these guidelines is visual and is not technically exhaustive.

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I. Foundation

The Appraiser must examine the foundation for readily observable evidence of safety or structural deficiencies that may require repair. If a deficiency is noted, the Appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections in the appraisal where physical deficiencies or adverse conditions are reported.

i. Basement

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.

ii. Sump Pumps

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the sump pump is not properly functioning at the time of appraisal. A sump pump may be hardwired by an acceptable wiring method or may have a factory electrical cord that is to be connected to a receptacle suitable for such use.

m. Crawl Space Observation Requirements

The Appraiser must visually observe all areas of the crawl space and notify JMAC of the deficiency of MPR and MPS when the crawl space does not satisfy any of the following criteria:

- The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- The crawl space must be properly vented unless the area is mechanically conditioned.
- The crawl space must be free of trash, debris, and vermin.
- The crawl space must not be excessively damp and must not have any water pooling.

If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.

The Appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness and security of the Property.

In cases where access through a scuttle is limited, and the Appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders of the Appraiser will suffice. If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained subflooring or smell of mold), the Appraiser must report this condition and JMAC must have a qualified third party perform an inspection.

If there is no access, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

Not all houses (especially historic houses) with a vacant area beneath the flooring are considered to have a crawl space; it may be an intentional void, with no mechanical systems and no intention or reason for access.

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n. Environmental and Safety Hazards

The Appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

Environmental and safety hazards may include defective lead-based paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the Structure from soil or other differential ground movements, subsidence, flood, and other hazards.

i. Lead-Based Paint

(A) Improvements Built on or Before 1978

The Appraiser must note the condition and location of all defective paint and require repair in compliance with [24 CFR § 200.810\(c\)](#) and any applicable EPA requirements. The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, deck, porch, railings, windows and doors, for defective paint (cracking, scaling, chipping, peeling, or loose). Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant Structures.

(B) Condominium Units Built on or Before 1978

The Appraiser must observe the interior of the unit, common unit and exterior surfaces and appurtenant Structures of the specific unit being appraised; and address the overall condition, maintenance and appearance of the Condominium Project. The Appraiser must note the condition and location of all defective paint in the unit, common area and exterior, and require repair in compliance with [24 CFR § 200.810\(c\)](#) and any applicable EPA requirements.

ii. Methamphetamine Contaminated Property

If JMAC notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.

If the effective date of the appraisal is prior to certification that the Property (site and dwelling) is safe for habitation, the Appraiser will complete the appraisal subject to certification that the Property is safe for habitation.

If the effective date of the appraisal is after certification that the Property (site and dwelling) is safe for habitation, and JMAC has provided a copy of the certification by the certified hygienist, the Appraiser must include a copy of the certification in the appraisal report.

The Appraiser must analyze and report any long-term stigma caused by the Property's contamination by meth and the impact on value or marketability.

iii. Wood Destroying Insects/Organisms/Termites

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The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests. The Appraiser's observation is not required to be at the same level as a qualified pest control specialist.

If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal subject to inspection by a qualified pest control specialist.

o. Repair Requirements

When examination of New or Existing Construction reveals non-compliance with MPR and MPS, the Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

If compliance can only be effected by major repairs or alterations, the Appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal, within the reporting form.

Regardless of the Appraiser's suggested repairs, JMAC will determine which repairs are required.

i. Limited Required Repairs

The Appraiser must limit required repairs to those repairs necessary to:

- maintain the safety, security and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.

ii. As-Is Condition and Cosmetic Repairs

The Appraiser may complete an as-is appraisal for existing Properties when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the Property. Cosmetic or minor repairs are not required, but the Appraiser must report and consider them in the overall condition when rating and valuing the Property. Cosmetic repairs include missing handrails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser's professional judgment do not pose a health and safety issue to the occupants of the house.

If an element is functioning well but has not reached the end of its useful life, the Appraiser should not recommend replacement because of age.

iii. Defective Conditions Requiring Repair

The nature and degree of any noted deficiency will determine whether the Appraiser must address the deficiency in the narrative comments area of the report under "condition of the property" or "physical deficiencies" affecting livability or structural soundness.

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iv. Conditions Requiring Inspection by a Qualified Individual or Entity

The Appraiser must notify JMAC and make the appraisal subject to an inspection by a qualified individual or Entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the Appraiser's ability to assess. The Appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair.

p. Utility Services

i. Definition

Utility Services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone.

ii. Required Analysis and Reporting

The Appraiser must notify JMAC of the deficiency of MPR or MPS if the subject Property is an attached, or detached Single Family dwelling and the utilities are not independent for each living unit. This does not apply to ADUs. The Appraiser must also notify JMAC of the deficiency of MPR or MPS if utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body.

(A) Living Units Under Single Ownership

The Appraiser should not note a deficiency of MPR or MPS if the Property contains multiple living units under a single Mortgage or ownership (two- to four-family Properties) that utilize common services, such as water, sewer, gas and electricity and is served by one meter in jurisdictions that allow single meter rental properties, unless separate utility service shut-offs are not provided for each.

The Appraiser must notify JMAC of the deficiency of MPR or MPS if other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single Mortgage.

(B) Living Units Under Separate Ownership

The Appraiser should not note the deficiency of MPR or MPS if the Property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an Easement or covenant and maintenance agreement, unless individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities.

If a single drain line in the building serves more than one unit, and the building drain clean-outs are not accessible from the exterior, the Appraiser must note the deficiency of MPR or MPS to JMAC.

iii. Individual Water Supply Systems

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(A) Definition

An Individual Water Supply System refers to a potable water source providing water to an individual Property.

(B) Standard

When an Individual Water Supply System is present, water quality must meet the requirements of the health authority with jurisdiction. If there are no local (or state) water quality standards, then water must be potable, which may be demonstrated by compliance with the current [EPA Manual of Individual and Non-Public Water Supply Systems](#).

Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance is provided that the treatment will not endanger the quality of the water supply.

(C) Required Analysis and Reporting

When the Appraiser obtains evidence that any of the water quality requirements are not met, the Appraiser must notify JMAC and provide a cost to cure.

(1) Conditions for Individual Water Supplies

The Appraiser must note the deficiency of MPR or MPS if the subject Property contains a well located within the foundation walls of an existing dwelling and there is no evidence that the local jurisdiction recognizes and permits such a location, that it is common for the market area, and does not adversely affect marketability unless the well is located within the foundation walls of a New Construction dwelling in an arctic or sub-arctic region.

The Appraiser must report when water to a Property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site. The Appraiser must report whether such systems are readily accepted by local market participants and that the water supply system may violate MPR or MPS.

The Appraiser must note the deficiency of MPR or MPS if the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point or artesian wells.

A pressure tank with a minimum capacity of 42 gallons must be provided.

However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.

(2) Required Analysis and Reporting

The Appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:

- the water supply relies upon a water purification system due to the presence of contaminates;
- corrosion of pipes (plumbing);

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- areas of intensive agricultural uses within one quarter mile;
- coal mining or gas drilling operations within one quarter mile;
- a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
- an unusually objectionable taste, smell, or appearance of well water.

The Appraiser must also be familiar with the [minimum distance requirements](#) between private wells and sources of pollution and, if discernible, comment on them. The Appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building Structures but may provide estimated distances where they are comfortable doing so. When available, the Appraiser should obtain from the homeowner or Mortgagee a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.

iv. Shared Wells

(A) Definition

A Shared Well refers to a well that services two to four homes where there is a binding [Shared Well Agreement](#) between the property owners that meets FHA requirements.

(B) Required Analysis and Reporting

If the Property has a Shared Well, the Appraiser must report it and note any readily observable deficiencies. The Appraiser must also obtain a Shared Well Agreement and include it in the appraisal report so that JMAC may review the agreement to determine eligibility. The Appraiser must also require an [inspection under the same circumstances as an individual well](#).

v. Community Water Systems

(A) Definition

A Community Water System refers to a central system that is owned, operated and maintained by a private corporation or a nonprofit property owners' association.

(B) Required Analysis and Reporting

If the Property is on a Community Water System, the Appraiser must note the name of the water company on the appraisal report.

The Appraiser must report on the availability of connection to public and/or Community Water System or sewer system, and any jurisdictional conditions requiring connection.

q. Onsite Sewage Disposal Systems

i. Definition

An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of effluent on the same Property that produces the wastewater.

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ii. Required Analysis and Reporting

The Appraiser must note the deficiency of MPR or MPS and notify JMAC if the Property is not served by an off-site sewer system and any living unit is not provided with an Onsite Sewage Disposal System adequate to dispose of all domestic wastes in a manner that will not create a nuisance, or in any way endanger the public health.

The Appraiser must visually inspect the Onsite Sewage Disposal System and its surrounding area. The Appraiser must require an inspection to ensure that the system is in proper working order if there are readily observable signs of system failure. The Appraiser must report on the availability of public sewer to the site.

The Appraiser must note the deficiency of MPR or MPS and notify JMAC if the Appraiser has evidence that the Onsite Sewage Disposal System is not sufficient.

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4. Valuation and Reporting Protocols

a. Photograph, Exhibits and Map Requirements

The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized.

If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings contributing value. The sketch must show “covered” or “uncovered” to indicate a roof or no roof (such as over a patio). The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser’s observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	Minimum Photograph Requirement
Subject Property Exterior	<ul style="list-style-type: none"> • Front and rear at opposite angles to show all sides of the dwelling • Improvements with Contributory Value not captured in the front or rear photograph • Street scene photograph to include a portion of the subject site • For New Construction, include photographs that depict the subject’s grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	<ul style="list-style-type: none"> • Kitchen, main living area, bathrooms, bedrooms • Any other rooms representing overall condition • Basement, attic, and crawl space • Recent updates, such as restoration, remodeling and renovation • For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas
Comparable Sales, Listings, Pending Sales, Rentals, etc.	<ul style="list-style-type: none"> • Front view of each comparable utilized • Photographs taken at an angle to depict both the front and the side when possible • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However,

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	Appraisers must include their own photographs as well, to document compliance
Subject Property Deficiencies	<ul style="list-style-type: none"> Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	<ul style="list-style-type: none"> Additional photographs of the common areas and shared amenities of the Condominium Project

b. Intended Use and Intended Users of Appraisal

The intended use of the appraisal is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage ([24 CFR § 200.145\(b\)](#)).

FHA and JMAC are the intended users of the appraisal report.

The FHA Appraiser does not guarantee that the Property is free from defects. The appraisal establishes the value of the Property for mortgage insurance purposes only.

c. Development of the Market Value

i. Value Required

(A) Definition of Market Value

Market Value refers to the most probable price which a Property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the Property sold unaffected by special or creative financing or Sales Concessions granted by anyone associated with the sale.

Adjustments to the comparables must be made for special or creative financing or Sales Concessions. No adjustments are necessary for those costs, which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable Property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the Property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the Appraiser's judgment.

(B) Standard

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The Appraiser must determine the Market Value of the subject Property.

(C) Required Analysis and Reporting

The Appraiser must analyze all data researched and collected prior to reporting the value.

ii. Appraisal Conditions

(A) Definition

Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the value of conclusion can be considered valid.

(B) Standard

Conclusions about the observed conditions of the Property provide the rationale for the opinion of Market Value.

The completed appraisal form, together with the required exhibits, constitutes the reporting instrument for FHA-insured Mortgages. Conditions of the Property, mortgage type and the market will determine if the appraisal is to be performed as-is, or if the value opinion needs to be conditioned upon an extraordinary assumption(s), a hypothetical condition(s), subject to an additional inspection, or completion of construction, repairs or alterations.

(C) Required Analysis and Reporting

The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to eliminate conditions threatening the continued use, security, and marketability of the Property.

The following table illustrates property conditions under which an Appraisal Condition must be made.

Report Conclusion	Appraisal Condition
1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser. 2. The Property is being recommended for rejection. 3. Intended use is for Pre-Foreclosure Sale (PFS) in accordance with 24 CFR § 203.370 or Claims Without Conveyance of Title (CWCOT) @ 24 CFR § 203.368. 4. Intended use is for Real Estate Owned (REO) in accordance with 24 CFR § 291.100.	"As-is"

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<p>1. Proposed Construction where construction has not started.</p> <p>2. Under Construction but not yet complete (less than 90%).</p>	<p>“Subject to completion per plans and specifications”</p>
<p>1. Repair or Alteration Condition(s) noted by the Appraiser to:</p> <ul style="list-style-type: none"> • protect the health and safety of the occupants; • protect the security of the Property; • correct physical deficiencies or conditions affecting structural integrity. <p>2. Under Construction, more than 90% complete with only minor finish work remaining (buyer preference items e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications.</p>	<p>“Subject to the following repairs or alterations”</p>
<p>Required inspection(s) to meet HUD’s Minimum Property Requirements and Minimum Property Standards.as noted by the Appraiser.</p>	<p>“Subject to the following required inspection”</p>

iii. Valuation Development

(A) Standard

There are three valuation approaches as applied to one-to four-residential unit Properties:

- sales comparison approach;
- cost approach; and
- income approach to value.

(B) Required Analysis and Reporting

The Appraiser must obtain credible and verifiable data to support the application of the three approaches to value.

The Appraiser must perform a thorough analysis of the characteristics of the market, including the supply of properties that would compete with the subject and the corresponding demand.

The Appraiser must perform a highest and best use of the Property, using all four tests and report the results of that analysis.

(C) FHA Data Requirements for the Subject and Comparable Properties

The Appraiser must verify the characteristics of the transaction (such as sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources.

The Appraiser must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, JMAC, or other parties with relevant information. If the sale cannot be verified

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by a party to the transaction, the Appraiser may rely on public records or another verifiable impartial source.

MLS records and property site visits alone are not acceptable verification sources.

(D) Effective Age and Remaining Economic Life

(1) Standard

The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.

(2) Required Analysis and Reporting

The Appraiser must state the remaining economic life as a single number or as a range for all property types, including condominiums. The Appraiser must provide an explanation if the remaining economic life is less than 30 years.

The Appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.

(E) Approaches to Value

The Appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant.

(1) Cost Approach to Value

The Appraiser may use any of the credible and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other credible source that can be duplicated by the reader).

If the Appraiser uses cost estimates provided by the contractor or builder of the Property, the cost estimates must be reasonable and independently verified.

(a) Land Valuation

(i) Standard

If the cost approach is applicable, the Appraiser must estimate the site value. Acceptable methodology used to estimate land value include sales comparison, allocation, and extraction.

(ii) Required Analysis and Reporting

The Appraiser must include a summary of the supporting documentation and analysis in the appraisal. The Appraiser must maintain comparable land sales data and analysis or other supporting information in the Appraiser's file and include it by reference in the appraisal. [For Properties with Excess Land](#), the Appraiser must include all comparable land sale data and analysis in the report.

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(b) Estimate of Cost New for Housing

(i) Standard

The Appraiser may use either the replacement cost or the reproduction cost.

(ii) Required Analysis and Reporting

The Appraiser must state the method used and the source of the data.

The Appraiser must use the current version of a published cost data source recognized by the industry. The Appraiser must report the quality rating selected and utilized, as well as identify the source of the data, and its publication and/or effective date. The Appraiser is expected to be aware of local cost data from builders, contractors, building supply firms, and other building industry participants as a check against the published cost data.

The Appraiser must also provide a supporting explanation when applying adjustments to the published cost data, such as adjustments for:

- transportation and labor in remote areas;
- entrepreneurial profit; or
- fees and charges unique to the area.

(2) Income Approach to Value for Residential Properties

(a) Standard

The Appraiser should apply the income approach to a Single Family residential Property when there is evidence of recently rented and then sold data pairs.

The Appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restrictions. If comparable sales do not have rent control restrictions similar to those of the subject, an appropriate adjustment should be applied.

(b) Required Analysis and Reporting

The Appraiser must analyze rental data and provide support for the estimated market rents and adjustments applied to the comparable rentals in the reconciliation of this approach.

The Appraiser must derive the Gross Rent Multiplier (GRM) factor from market data and support it prior to applying it to the market rent for the subject.

(3) Sales Comparison Approach

(a) Standard

The sales comparison approach is required for all appraisals.

(b) Required Analysis and Reporting

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The Appraiser must present the data, points of comparison, and analysis; provide support for the Appraiser's choice of comparable properties, and the adjustments for dissimilarities to the subject; and include sufficient description and explanation to support the facts, analyses and the Appraiser's conclusion.

If the data from the market area is insufficient to support some of these requirements, the Appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached and the steps taken by the Appraiser to attempt to meet the guidelines.

(c) Comparable Sale Selection

(i) Characteristics of the Property

Comparable sale selection must be based on properties having the same or similar locational characteristics, physical characteristics and the priority the market assigns to each factor, including:

- site;
- site view;
- location;
- design;
- appeal;
- style;
- age;
- size;
- utility;
- quality;
- condition; and
- any other factor that in the Appraiser's professional judgment is recognized as relevant in the subject market.

(ii) Characteristics of the Transaction

Definition

An Arm's Length Transaction refers to a transaction between unrelated parties and meets the requirements of Market Value.

Standard

The Appraiser must utilize Arm's Length Transactions for comparable properties except when there is evidence that REO sales or short sale/Pre-Foreclosure Sale (PFS) transactions are so prevalent that normal Arm's Length Transactions are not present or supported by the market trend.

A transaction involving a foreclosure transfer to a mortgagee is not evidence of the Market Value, and is not a valid type of comparable sale for an FHA-insured Mortgage.

The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an Arm's Length Transaction:

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- REO sale – transfer from mortgagee to new owner;
- short sale/PFS;
- estate sale;
- court ordered sale;
- relocation sale; and
- flip transactions.

Required Analysis and Reporting

The Appraiser must include as many comparable properties as are necessary to support the Appraiser's analysis and conclusion. At a minimum, the Appraiser must include the most recent and relevant sales, preferably within the last six months. The Appraiser must include at least three sales that settled no longer than 12 months prior to the effective date of the appraisal. The Appraiser must provide additional support by including more sales, offerings, offerings now under contract, or relevant sales that settled more than 12 months prior to the effective date of the appraisal.

The Appraiser must analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales or may not be classified as directly similar to the Property.

(d) Adjusting Comparable Properties

(i) Standard

Calculation of the Contributory Value includes methods based on the:

- direct sales comparison approach;
- cost approach; and
- income approach.

(ii) Required Analysis and Reporting

The Appraiser must apply all appropriate techniques and methods, conduct an analysis, and report the results. The Appraiser must include the reasoning that supports the analyses, opinions, and conclusions in the report.

(e) Comparable Selection in Diverse Real Estate Markets

(i) Standard

Comparable sales should be selected based on similar locational and physical characteristics, not sales price.

Subdivisions, Condominiums or Planned Unit Development Projects

Arm's length resale activity from within the established subdivision, condominium or PUD project is often the best indicator of value.

(ii) Required Analysis and Reporting

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The Appraiser must include an analysis of the comparable properties that includes an explanation. The analysis must reflect typical Borrower expectations and behavior.

Subdivisions, Condominiums or Planned Unit Development Projects

If the Appraiser uses sales of comparable properties that are located outside of the subject's subdivision or project, the analysis must reflect typical Borrower expectations and behavior.

For Properties in new subdivisions, or units in new (or recently converted) Condominium Projects, the Appraiser must include, for comparison, properties in the subject market area as well as properties within the subject subdivision or project. Whenever possible, the Appraiser must select at least one sale from a competing subdivision or project and one sale from within the subject subdivision or project so that this market acceptance may be directly compared. If the new project is mature enough to have experienced arm's length re-sales, the Appraiser must also analyze and report those properties.

(f) Comparable Sale Selection in Rural and Slow Growth Markets

If insufficient comparable sales have occurred within the previous six months, the Appraiser must include at least three sales that occurred less than 12 months prior to the date of appraisal.

Where there is a scarcity of recent comparable sales data, the Appraiser may include sales older than 12 months as additional sales in markets. The Appraiser must report the most recent and relevant sales, and include a thorough explanation of the market conditions, the levels of supply and demand, and a reason for the lack of recent sales data.

(g) Sales Concessions

(i) Definition

Sales Concessions refer to non-realty items, upgraded features in newly constructed houses, or special financing incentives.

(ii) Standard

Adjustments are not calculated on a dollar for dollar cost of the financing or Sales Concession. However, the dollar amount of any adjustment should approximate the market's reaction to the Sales Concessions based on the Appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the Sales Concessions, and what the Property would have sold for without the concessions under typical market conditions.

(iii) Required Analysis and Reporting

The Appraiser must verify all comparable sales transactions for Sales Concessions and report those findings in the appraisal. The Appraiser must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one of their representatives), the Appraiser must report the lack of verification.

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The Appraiser must make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The Sales Concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The Appraiser must include an explanation of the effect of the Sales Concessions on the sale price of the comparable.

(h) Bracketing

(i) Definition

Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.

(ii) Standard

Comparable properties must be selected based on the principle of substitution, and the analysis will reveal the relevance of that data.

Comparable properties should not be chosen only because their prices bracket a desired or estimated value.

(iii) Required Analysis and Reporting

In analyzing the comparable pool to determine the best comparable sales to display and compare in the adjustment grid, the Appraiser must use Bracketing techniques when possible and appropriate.

(i) Market Condition (Time) Adjustments

(i) Definition

Market Condition Adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

(ii) Standard

Within the sales adjustment grid, the potentially comparable properties may be adjusted if they were contracted for sale during a market period different from that of the date of valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation.

(iii) Required Analysis and Reporting

The Appraiser must provide a summary comment and support for all conclusions relating to the trend of the current market.

(F) FHA Appraisal Requirements in Changing Markets

(1) Standard

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An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

The final conclusion must be based on the reconciliation of all data.

(a) Increasing Markets

In an increasing market, positive Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(b) Declining Markets

Although there is no standard industry definition, for purposes of performing appraisals of Properties that are to be collateral for FHA-insured Mortgages, a Declining Market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory and extended marketing times. Generally, a trend in the housing market is identifiable when it extends for a period of at least six months or two quarters prior to the effective date of the appraisal.

In a Declining Market, negative Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(2) Required Analysis and Reporting

The Appraiser must accurately report market conditions and determine when housing trends are increasing, stable or declining. The Appraiser must provide a summary comment as to the continuance of the current trend or if the trend appears to be changing, and provide support for all conclusions. If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

The Appraiser must include an absorption rate analysis, and at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal. If the Appraiser cannot comply with this requirement due to the lack of market data, a detailed explanation is required.

The Appraiser must include a minimum of two active listings or pending sales on the appraisal grid (in addition to at least three recently settled sales).

For active listings or pending sales, the Appraiser must:

- ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable properties;
- use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sale price ratios;
- include the original list price, any revised list prices, and calculate the total Days on Market (DOM). The Appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal reporting form;
- reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled sales provided; and

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- if the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, determine if a Market Condition Adjustment is appropriate.

(G) Final Reconciliation and Conclusion

(1) Definition

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

(2) Standard

After the approaches to value are completed, the Appraiser must check the data, calculations and conclusions. The Appraiser must reconcile each approach to value, and must reconcile all approaches into a final estimate of value for the Property.

(3) Required Analysis and Reporting

If the appraisal has no conditions, the Appraiser must render an as-is value opinion.

If the Appraiser must conclude the report under a hypothetical condition or extraordinary assumption, the Appraiser must report the issues and requirements as one of the following:

- “subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed;”
- “subject to the following repairs or alterations (list them) on the basis of a hypothetical condition that the repairs or alterations have been completed;” or
- “subject to a required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair.”

(H) Signature

(1) Standard

The FHA Roster Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the FHA Roster Appraiser. A trainee or licensee may accompany the FHA Roster Appraiser on the observations but may not perform the observations in place of the FHA Roster Appraiser.

The FHA Roster Appraiser must select the comparable properties and perform all critical analyses contained in the appraisal report as well as the [Market Conditions Addendum](#) to the appraisal form. The FHA Roster Appraiser must also inspect the subject Property and at least the exterior of the comparable properties.

(2) Required Analysis and Reporting

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In another appraiser or trainee appraiser provided assistance or participated in the preparation of the appraisal, the FHA Roster Appraiser must disclose the name of the appraiser or trainee appraiser in the report and their role in developing the appraisal.

5. Condominium Projects

a. Definition

A Condominium Project refers to a multi-unit Property in which persons hold title to individual units and an undivided interest in common elements. Common elements (areas) include underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration. Common areas are typically managed by a condominium association.

b. Standard

A Condominium Project must be on the list of [FHA-approved condominiums](#) unless it meets the definition for a Site Condominium.

c. Required Analysis and Reporting

The Appraiser must check if the Condominium Project is on the [list of FHA-approved condominiums](#).

d. Site Condominium

i. Definition

A Site Condominium refers to a project of Single Family, totally detached dwellings encumbered by a declaration of condominium covenants or a condominium form of ownership. They have no shared garages or any other attached buildings. Project approval is required for Site Condominiums that do not meet this definition.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on [Fannie Mae Form 1073](#)/[Freddie Mac Form 465](#), *Individual Condominium Unit Appraisal Report*.

6. Valuation of Leasehold Interests

a. Definition

Leasehold Interests refer to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

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b. Standard

Eligible Leasehold terms must meet the requirements included in [Leasehold Interests](#).

c. Required Analysis and Reporting

The Appraiser must obtain a copy of the lease from JMAC. The Appraiser must analyze and report the terms of the ground lease, including the amount of the Ground Rent, the term of the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a Fee Simple title by paying the value of the Leased Fee to the lessor, thereby cancelling the Ground Rent), and if the Ground Rent can increase or decrease over the life of the lease term.

The Appraiser must estimate and report the value of the Leasehold Interest using the calculation in the box below. The Appraiser must provide support for the capitalization rate selected.

Calculation of the Leasehold Interest
Formulas:
Value of Leased Fee = Ground Rent / Capitalization Rate
Value of Leasehold = Value of Fee Simple - Value of Leased Fee

In valuing the Leasehold Interest, the Appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its Leasehold Interest.
- In the GRM income approach, the sales used to derive the GRM factor must be based on properties under similar Ground Rent terms (or be adjusted to similar Ground Rent terms).
- In the sales comparison analysis, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section of the sales adjustment grid.

d. Mixed Use One- to Four-Unit Single Family Properties

i. Definition

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

ii. Required Analysis and Reporting

The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include business valuation or the value of Personal Property or business fixtures in the appraisal.

The Appraiser must provide measurements and calculations of the building area on the building sketch to show what portion of the Property is allocated to residential use, and what portion is allocated to non-residential use.



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The Appraiser must provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential Property.

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7. Market Conditions Addendum, Fannie Mae Form 1004MC/Freddie Mac Form 71, Instructions Applicable to FHA Appraisals

a. Standard

The Appraiser must complete the [Fannie Mae Form 1004MC/Freddie Mac Form 71, Market Conditions Addendum to the Appraisal Report](#), for all appraisal assignments. The analysis and valuation of FHA-insured Properties must properly analyze and address market trends in the subject's market. Whether these trends are positive, neutral or negative, proper data collection and reporting are imperative components of a complete market conditions analysis; this is most important where markets are demonstrating negative trends.

b. Required Analysis and Reporting

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the "Neighborhood" section of the appraisal report form.

The Appraiser's analysis and conclusions must be based on the information reported on this form. The Appraiser's study of the market affecting the subject Property must include sufficient data for a statistical analysis to be relevant.

The Appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated. If any required data is unavailable or is considered unreliable, the Appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the form; if it is available, however, the Appraiser must include the data in the analysis.

If data sources provide the required information as an average instead of the median, the Appraiser must report the available figure and identify it as an average. The Appraiser must explain any anomalies in the data, such as seasonal markets, New Construction, foreclosures, etc.

8. Programs and Products

a. HUD Real Estate Owned Properties

i. Definition

A HUD REO Property, also known as a HUD home or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure on an FHA-insured Mortgage or other means of acquisition, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to JMAC.

ii. Standard

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An appraisal may be ordered on a HUD REO Property as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(A) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD REO Property.

(B) Intended Use of Appraisal

The intended use of the appraisal for a HUD REO Property is as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(C) Intended User

The intended user of an appraisal of a HUD REO Property is HUD/FHA or its contractors.

iii. Required Analysis and Reporting

(A) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. The Appraiser must describe any differences found between the information contained in the Property Condition Report (PCR) and the Appraiser's observations. The Appraiser must support this description with photographs when warranted.

(B) Utilities - Mechanical Components

If the utilities are off at the time of inspection, the Appraiser must ask to have them turned on and complete all requirements under [Mechanical Components](#). However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

(C) Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

When considering sales to be utilized as comparables, the Appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm's length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate Market Value, so REO sales, short sales and other nonarm's length transactions must not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the Appraiser must provide additional explanation and support in the "Analysis" section of the sales comparison approach.

Transfers to a Mortgagee or Entity that owns the Mortgage by deed of trust, through foreclosure sale or sheriff's sale, are not acceptable as comparable sales.

Appraisers must exercise due diligence and care in the research and validation of REO sales to ensure similarity to the subject, especially in physical condition.

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(D) Appraisal Conditions

The Appraiser must provide an analysis and report of the value of the subject Property “as is.” The appraisal report must include the applicable property specific appraisal reporting form, all required exhibits, and a copy of the PCR.

(E) Extraordinary Conditions

The as-is value can be impacted by extraordinary conditions. If the Property has an illegal use or an extraordinary condition, the Appraiser must estimate the cost to bring the Property into compliance with zoning or typical marketability. The Appraiser must report whether any grandfathered use is allowed. The Appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances.

(F) Statement of Insurability

The Appraiser must include a Statement of Insurability in the “Comments” section of the appraisal report.

(1) Insurable

The Appraiser must state that the Property is insurable if, at the time of the appraisal, the Property meets MPR and MPS without needing repairs.

(2) Insurable With Repair Escrow

If the Property requires no more than \$5,000 in repair, the Appraiser must state that the Property is insurable with a repair escrow.

(3) Uninsurable

If the cost of repairs is greater than \$5,000, the Appraiser must state that the Property is uninsurable.

(G) Submitting the Appraisal

The submission of the appraisal report and data is uploaded in HUD’s P260 Webbased Internet Portal or subsequent system.

The Appraiser must obtain a completed copy of the PCR from the contractor and submit the PCR with the appraisal report.

(H) Claims Without Conveyance of Title Properties

(1) Assignment Type

Under “Assignment Type” in the “Subject” section of the appraisal reporting form, the Appraiser must mark the box labeled “other” and indicate that the Property is a HUD Claims Without Conveyance of Title (CWCOT) Property.

(2) Intended Use of Appraisal

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The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for calculating the Commissioner's Adjusted Fair Market Value (CAFMV) ([24 CFR § 203.368](#)).

(3) Intended User

FHA is the intended user of a CWCOT appraisal.

(4) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. If the Appraiser cannot enter the Property, the Appraiser may perform the valuation based on an exterior-only inspection on the [Fannie Mae Form 2055/Freddie Mac Form 2055, Exterior-Only Inspection Residential Appraisal Report](#), dated March 2005, or the [Fannie Mae Form 1075/Freddie Mac Form 466, Exterior-Only Inspection Individual Condominium Unit Appraisal Report](#), for a condominium Property. The Appraiser must indicate that the Property could not be entered and identify the sources of the factual property data employed by the Appraiser in determining the value.

(5) Appraisal Conditions

CWCOT Properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

(I) Pre-Foreclosure Sale Program

(1) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD Pre-Foreclosure Sale (PFS) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for determining the list price of a HUD PFS Property ([24 CFR § 203.370](#)).

(3) Intended User

FHA is the intended user of a PFS appraisal.

(4) Sales Comparison Approach

Sales selection requirements for PFS are the same as the [sales comparison approach](#) in the REO section of this *SF Handbook*.

(5) Appraisal Conditions

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PFS Properties are to be appraised “as is,” in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property “as is.”

Under “Reconciliation” in the “This appraisal is made” segment, the Appraiser must mark the box labeled “as is.”

iv. Appraisals for HUD Real Estate Owned Properties Purchased With a New FHA insured Mortgage (Effective for Case Numbers Assigned on or after March 14, 2016)

A new appraisal must be prepared for all transactions involving the purchase of a HUD REO Property with a new FHA-insured Mortgage. The appraisal must be prepared in accordance with the requirements of [HUD Real Estate Owned Properties](#) except as noted.

(A) Property Meets HUD’s MPR

If the appraisal reveals that the Property meets HUD’s MPR, the Appraiser must complete the appraisal report “as is.”

(B) Property Requires Repairs

If the appraisal reveals that the Property requires repairs in order to meet HUD’s MPR, the Appraiser must provide an estimate of the cost to cure and complete the report “Subject to the following repairs or alterations on the basis of the hypothetical condition that the repairs or alterations have been completed.”

FHA Underwriting Guidelines

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PART C. Glossary

30-Day Account

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

Accessory Dwelling Unit (ADU)

An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

Acquisition Cost

The Acquisition Cost is the purchase price of the Property, including closing costs, prepaid costs, and commissions, if paid by the purchaser, but not including the cost of any repairs that the purchaser makes to the Property subsequent to acquisition.

Active Duty

Active Duty refers to a status where a person has a full-time military occupation.

Adequate Vehicular Access

Adequate Vehicular Access to Property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.

Adjustable Rate Mortgage

An Adjustable Rate Mortgage (ARM) refers to a Mortgage in which the interest rate can change annually based on an index plus a margin.

Adjusted Value (not for 203(k) Mortgages)

For purchase transactions, the Adjusted Value is the lesser of:

- purchase price less any inducements to purchase; or
- the Property Value.

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For refinance transactions:

- For Properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:
 - the Borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
 - the Property Value.
- Properties acquired by the Borrower within 12 months of case number assignment by inheritance or through a gift from a Family Member may utilize the calculation of Adjusted Value for Properties purchased 12 months or greater.
- For Properties acquired by the Borrower greater than or equal to 12 months prior to the case number assignment date, the Adjusted Value is the Property Value.

Affiliate

An Affiliate is a contractor, agent, vendor, subservicer, or Sponsored Third-Party Originator (TPO) who participates in FHA programs on behalf of an FHA-approved Mortgagee.

After Improved Value

After Improved Value refers to the value as determined by the Appraiser based on a hypothetical condition that the repairs or alterations have been completed.

Alimony, Child Support, and Maintenance Income

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.

Annuity Income

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

Appraisal Conditions

Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the value of conclusion can be considered valid.

Appraiser

Appraiser refers to an FHA Roster Appraiser who observes, analyzes, and reports the physical and economic characteristics of a Property and provides an opinion of value to FHA. An Appraiser's observation is limited to readily observable conditions and is not as comprehensive an inspection as one performed by a licensed home inspector.

Appropriate HOC

The Appropriate HOC jurisdiction is determined by the location of the Property securing the FHA Mortgage.

Approved Mortgage

An Approved Mortgage is a Mortgage underwritten and approved by a Direct Endorsement (DE) underwriter, or covered by a firm commitment issued by HUD.

Arm's Length Transaction

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An Arm's Length Transaction refers to a transaction between unrelated parties who are each acting in their own best interest.

Articles of Organization

Articles of Organization refers to articles of incorporation, charter, articles of association, constitution, trust instrument, or any other written instrument by which an organization is created.

Authoritative Copy

The Authoritative Copy refers to the controlling reference copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the Mortgagee or holder as the controlling reference copy.

Automobile Allowance

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

Base Loan Amount

The Base Loan Amount is the mortgage amount prior to the addition of any financed Upfront Mortgage Insurance Premium (UFMIP). Unless otherwise stated in this *SF Handbook*, all references to maximum mortgage amount or mortgage amount shall refer to the Base Loan Amount.

Basis Point

A Basis Point (bps) is one one-hundredth of one percent.

Boarder

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

Borrower

Borrower refers to each and every Borrower on the mortgage application. The term Borrower does not include a Cosigner.

Bracketing

Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.

Business Formation Documents

Business Formation Documents are an entity's articles of incorporation, bylaws, organization charter, operating agreement, partnership agreement, and similar documentation.

Business Relationship

Business Relationship refers to an association between individuals or companies entered into for commercial purposes.

Cash on Hand

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

Cash Reserves (03/14/16)

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Cash Reserves include all non-retirement liquid assets available for withdrawal or liquidation from all financial institutions. Such accounts include, but are not limited to, the following:

- brokerage, mutual funds, checking, savings, money market or certificate of deposits, other depository accounts, and stocks;
- other equity instruments such as marketable debt of federal, state, or local governments, Government-Sponsored Enterprises, corporations and other businesses; and
- other securities and commodities (including futures, traded on an exchange or marketplace generally available to the public) for which values can be readily verified using Schedules B (Interest & Dividends), D (Capital Gains & Losses) and E (Supplemental Income & Loss) of the Borrower's most recent federal tax return.

Change Date (03/14/16)

The Change Date is the effective date of an adjustment to the interest rate, as shown in Paragraph 4(a) of the model Adjustable Rate Note form.

Charge Off Account

A Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

Child Support

See **Alimony, Child Support, and Maintenance Income**.

Closing Date (03/14/16)

The Closing Date is the settlement date on the Settlement Statement or similar legal document. This is also known as the origination date.

Combined Loan-to-Value (CLTV)

The CLTV is computed as the Base Loan Amount plus the outstanding principal balance of all subordinate Mortgage(s) divided by the Adjusted Value.

Combined Rate

Combined Rate refers to the interest rate on the Mortgage plus the Mortgage Insurance Premium rate.

Commission Income

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

Community Water System

A Community Water System refers to a central system that is owned, operated and maintained by a private corporation or a nonprofit property owners' association.

Condominium Project

A Condominium Project refers to a multi-unit Property in which persons hold title to individual units and an undivided interest in common elements. Common elements (areas) include underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration. Common areas are typically managed by a condominium association.

FHA Underwriting Guidelines

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Contingency Reserve

Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

Continuous Income (03/14/16)

Continuous Income is income received by the Borrower that is reasonably likely to continue from the date of the Mortgagee's loss mitigation evaluation through at least the next 12 months.

Contract Execution Date

Contract Execution Date refers to the date the contract has been executed by all parties.

Contributory Value

Contributory Value refers to the change in the value of a Property as a whole, whether positive or negative, resulting from the addition or deletion of a property component.

Cosigner

Cosigner refers to a third party to a debt that provides a guarantee that a debt will be repaid.

Credit-qualifying Loans

Credit-qualifying Loans refer to any loan(s) (e.g., mortgage loan, consumer credit card, automobile, etc.) where one or more of the borrowers have obtained and qualified for credit.

Current Index Figure (03/14/16)

The Current Index Figure is:

- the most recent index figure available 30 Days before the date of each interest rate adjustment, for Mortgages closed before January 10, 2015, and
- the most recent figure available 45 days before the date of each interest rate adjustment, for Mortgages closed on or after January 10, 2015.

Days

Days refer to calendar Days.

Decision Credit Score

Decision Credit Score refers to the credit score selected from the credit repositories (i.e., Equifax, Trans Union, and Experian) for use when underwriting the loan. A "decision credit score" is determined for each applicant according to the following rule: when three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available that score is used.

Declining Market

A Declining Market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory or extended marketing times.

Deed-in-Lieu of Foreclosure (03/14/16)

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A Deed-In-Lieu (DIL) of Foreclosure is a Loss Mitigation Home Disposition Option in which a Borrower voluntarily offers the deed as collateral Property to HUD in exchange for a release from all obligations under the Mortgage.

Deed Restriction

A Deed Restriction refers to a private agreement that restricts the use of real estate in some way, and is listed in the deed.

Default (03/14/16)

A Mortgage is in Default when the Borrower fails to make any payment or to perform any other obligation under the Mortgage for a period of 30 Days.

Delinquent (03/14/16)

A mortgage account is Delinquent any time a payment is due and not paid.

Disbursement

Disbursement refers to the release of mortgage proceeds to the Borrower.

Disbursement Date

The Disbursement Date refers to the date the proceeds of the Mortgage are made available to the Borrower.

Disputed Derogatory Credit Account

Disputed Derogatory Credit Account refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

Dwelling Unit

Dwelling Unit refers to a single unit of residence for a household of one or more persons.

Early Start Letter

Early Start Letter refers to the document issued by the Mortgagee in response to a builder's request to start construction before the appraisal is completed.

Easement

An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

Effective Income

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage.

Electronic Appraisal Delivery

The Electronic Appraisal Delivery (EAD) portal is a web-based platform where Mortgagees or their designated third-party service providers electronically deliver FHA appraisal reports prior to endorsement.

Employer Assistance

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, Mortgage Insurance Premiums, or any portion of the Minimum Required Investment.

FHA Underwriting Guidelines

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Employer Housing Subsidy

Employer Housing Subsidy refers to employer-provided mortgage assistance.

Employment Authorization Document

Employment Authorization Document refers to the form provided by the U.S. Citizenship and Immigration Services (USCIS) that proves an individual is allowed to work in the United States for a specific period of time.

Employment Income

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

Encroachment

An Encroachment refers to an interference with or intrusion onto another's property.

Entity

Entity refers to a business Entity such as a corporation, trust, partnership, or sole proprietorship.

Equivalent System

A system equivalent to the Credit Alert Verification Reporting System (CAIVRS) provided by HUD that Mortgagees may use to obtain information on delinquent Federal Debts from public records, credit reports or other sources.

Excess Land

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Excluded Parties

Excluded Parties refer to business parties that have been suspended and/or debarred from further participation in HUD and other federal government programs due to unethical business practice.

Existing Construction

Existing Construction refers to a Property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

Existing Less than One Year

Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the Certificate of Occupancy (CO) or equivalent. The Property must have never been occupied.

Expected Income

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

Externalities

Externalities refer to off-site conditions that affect a Property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas lines, Overhead Electric

FHA Underwriting Guidelines

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Power Transmission Lines and Local Distribution Lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

Family Member

Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- child, parent, or grandparent
 - a child is defined as a son, stepson, daughter, or stepdaughter
 - a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent
- spouse or domestic partner
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption
- foster child
- brother, stepbrother
- sister, stepsister
- uncle
- aunt
- son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower

Family-Owned Business Income

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

Federal Banking Agencies

The Federal Banking Agencies are the Federal Reserve System (FRS), Federal Deposit Insurance Corporation (FDIC), and the Credit Union Administration (NCUA).

Federal Debt

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

Federal Tax Debt

Federal Tax Debt refers to tax debt owed to the federal government for which regular payments are required.

Fee Simple

Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

Final Reconciliation

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

Funding Date

The Funding Date is the date the proceeds of the Mortgage are made available to the borrower.

FHA Underwriting Guidelines

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Gross Living Area

Gross Living Area (GLA) refers to the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure. It includes only finished, habitable, above-grade living space.

Grossing Up

Grossing Up refers to the process of adjusting tax-exempt income upward by the effective tax rate to compute an equivalent taxable income amount.

Ground Rent

Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

Homeowners' Association/Condominium Assessment (03/14/16)

A Homeowners' Association (HOA)/Condominium Assessment is a periodic payment required of property owners by an HOA or condominium association.

Homeowners' Association/Condominium Fees (03/14/16)

Homeowners' Association (HOA)/Condominium Fees are HOA/Condominium Assessments plus interest, Late Charges, collection/attorney fees, and other penalties.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

Housing Obligation/Mortgage Payment

A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or Properties owned. For the purposes of servicing the Mortgage, Mortgage Payment refers to the total monthly payment on the FHA-insured Mortgage.

HUD-approved Nonprofit

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD Real Estate Owned Property

A HUD Real Estate Owned (REO) Property, also known as a HUD Home or a HUD-owned home, refers to a one-to-four-unit residential Property acquired by HUD as a result of a foreclosure on an FHA-insured Mortgage or other means of acquisition, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee.

Identity of Interest

Identity of Interest refers to a transaction between family members, business partners or other business affiliates.

Indian Land

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Indian Land refers to those lands that are held by or for the benefit of Indian Tribes under some restriction or with some attribute peculiar to the legal status of its owners.

Indian Tribe

Indian Tribe refers to any Indian or Alaskan native tribe, band, nation, or other organized group or community of Indians or Alaskan natives recognized as eligible for the services provided to Indians or Alaskan natives by the Secretary of Interior because of its status as such an Entity, or that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal of this section.

Individual Retirement Account (IRA)/401(k) Income

An Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

Individual Water Supply System

An Individual Water Supply System refers to a potable water source providing water to an individual Property.

Initial Index Figure (03/14/16)

The Initial Index Figure is the most recent figure available before the Closing Date of Mortgage.

Installment Due Date

The Installment Due Date is the first Day of the month, as provided for in the security instrument.

Installment Loans

Installment Loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest. A loan secured by an interest in a timeshare must be considered an Installment Loan.

Instrumentality of Government

An Instrumentality of Government refers to an Entity that was established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status.

Insured HUD REO Property Purchase

An Insured HUD REO Property Purchase refers to the purchase of a HUD REO Property by a Borrower with a new FHA-insured Mortgage.

Interested Parties

Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.

Interested Party Contribution

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

Investment Income

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

Investment Property

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Investment Property refers to a Property that is not occupied by the Borrower as a Principal or Secondary Residence.

Investor

Investor refers to a Borrower(s) who will not occupy the home as a Principal or HUD-approved Secondary Residence (non-owner occupant).

Judgment

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

Jurisdictional HOC

Jurisdictional HOC refers to the Homeownership Center (HOC) whose jurisdiction includes the state in which the Property is located.

Land Subsidence

Land Subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

Land Use Restriction Addendum

The Land Use Restriction Addendum (LURA) is a legally binding contractual agreement between HUD and the Governmental Entities or nonprofits imposing restrictions on the resale of a HUD Home that the nonprofit organization or Governmental Entity purchased at a discount of 10 percent or greater.

Late Charges (03/14/16)

Late Charges are charges assessed if a Mortgage Payment is received more than 15 Days after the due date.

Leased Fee

Leased Fee refers to an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others.

Leasehold

Leasehold refers to the right to hold or use Property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

Leasehold Estate

Leasehold Estate refers to the right to use and occupy real estate for a stated term and under certain conditions that have been conveyed by a lease.

Leasehold Interests

Leasehold Interests refer to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

Loan Modification (03/14/16)

A Loan Modification is a permanent change in one or more terms of a Borrower's Mortgage.

Loan-to-Value (LTV)

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The LTV is computed as the Base Loan Amount divided by the Adjusted Value.

Local Distribution Lines

Local Distribution Lines refer to electric lines that commonly supply power to residential housing developments, similar facilities and individual Properties.

Low- to Moderate-Income

Low- to Moderate-Income individuals or families refer to individuals or families whose household income does not exceed 115 percent of the median income for the area when adjusted for family size.

Maintenance Income

See **Alimony, Child Support, and Maintenance Income**.

Manufactured Housing

Manufactured Housing refers to Structures that are transportable in one or more sections. They are designed to be used as a dwelling when connected to the required utilities, which include the plumbing, heating, air-conditioning and electrical systems contained therein. Manufactured Housing is designed and constructed to the federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed HUD Certification Label. Manufactured Housing may also be referred to as mobile housing, sectionals, multi-sectionals, double-wide, triple-wide or single-wide.

Manufactured Home

A Manufactured Home refers to a single dwelling unit of Manufactured Housing.

Market Condition Adjustments

Market Condition Adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

Market Rate (03/14/16)

Market Rate is a rate that is no more than 25 bps greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30 year fixed-rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1 percent (0.125 percent), as of the date a Trial Payment Plan (TPP) is offered to a Borrower.

Market Value

Market Value refers to the most probable price which a Property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the Property sold unaffected by special or creative financing or Sales Concessions granted by anyone associated with the sale.

Adjustments to the comparables must be made for special or creative financing or Sales Concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales

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transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the Property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

Military Income

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

Minimum Decision Credit Score (MDCS)

Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where three differing scores are reported, the middle score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that score is the MDCS.

Minimum Property Requirements

Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards

Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness and security of New Construction.

Minimum Required Investment (MRI)

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act (NHA), which represents at least 3.5 percent of the Adjusted Value of the Property.

Mixed Use

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

Modular Housing

Modular Housing refers to Structures constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house.

Mortgage

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Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential Property, such as a deed of trust or security deed.

Mortgage Charge

Mortgage Charge refers to the interest rate, discount points, origination fee, and any other amount charged to the Borrower for an insured Mortgage.

Mortgage Charge Rate

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a Mortgage expressed as a percentage of the initial principal of the Mortgage.

Mortgage Insurance Premium Cancellation (03/14/16)

A Mortgage Insurance Premium (MIP) cancellation is the ending of MIP payments on an FHA-insured Mortgage closed on or after January 1, 2001, and assigned a case number before June 3, 2013.

Mortgage on Indian Land

A Section 248 Mortgage on Indian Land refers to a purchase or refinance Mortgage covering one- to four-family dwellings on Indian Lands.

Mortgage Payment

See **Housing Obligation**.

Mortgage Payment Reserve

Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation.

Mortgagee

See **Title I Mortgagee** or **Title II Mortgagee**.

Net Self-Sufficiency Rental Income

Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).

New Construction

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

New Construction for Manufactured Housing

FHA Underwriting Guidelines

Effective For Case Numbers Assigned On or After 9/14/15

New Construction for Manufactured Housing refers to a Manufactured Home that has been permanently erected on a site for less than one year prior to the case number assignment date.

Non-Borrowing Spouse Debt

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

Non-Occupant Borrower (03/14/16)

A Non-Occupant Borrower is a Borrower on a Mortgage securing a Property that is not occupied by any Borrower.

Non-Occupying Borrower Transaction

Non-Occupying Borrower Transaction refers to a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the Property as their Principal Residence.

Nonprofit Instrumentality of Government

A Nonprofit Instrumentality of Government (NPIOG) refers to a 501(c)(3) organization that was established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated as an instrumentality by law (statute or court opinion). FHA requires the unit of government that established the nonprofit to exercise Organizational Control, Operational Control or Financial Control of the nonprofit in its entirety or, at minimum, the specific homebuyer assistance program that is using FHA's credit enhancement.

- **Organizational Control** refers to the majority of the governing board and/or Principal Officers that are named or approved by governmental body/officials.
- **Operational Control** refers to the requirement that the government body approves all major decisions and/or expenditures.
- **Financial Control** refers to the requirement that the government body provides funds through direct appropriations, grants, or loans, with related controls applicable to all activities of the Entity.

Non-Taxable Income

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

Non-Traditional Mortgage Credit Report (NTMCR)

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A type of credit report designed to access the credit history of a Borrower without the types of trade references normally appearing on a traditional credit report. It is used as a substitute for the traditional credit report.

Note

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Mortgage.

Notes Receivable Income

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

Obligor

Obligor refers to a person or entity who is legally or contractually obliged to make all principal and interest payments on a debt.

Onsite Sewage Disposal System

An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of effluent on the same Property that produces the wastewater.

Overhead Electric Power Transmission Lines

Overhead Electric Power Transmission Lines refer to electric lines that supply power from power generation stations to Local Distribution Lines.

Overtime and Bonus Income

Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

Owner-Occupant Borrower (03/14/16)

An Owner-Occupant Borrower is a Borrower residing in the Property secured by the FHA-insured Mortgage as a Principal Residence.

Partial Claim

A Partial Claim is FHA's reimbursement of a Mortgagee advancement of funds on behalf of the Borrower in an amount necessary to assist in reinstating the Delinquent Mortgage under the FHA-HAMP Option.

Partially Below-Grade Habitable Space

Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.

Part-Time Employment

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

Pension

Pension refers to income received from the Borrower's former employer(s).

Personal Property

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Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

Planned Unit Development (PUD)

A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

Pre-Foreclosure Sales

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

Premium Pricing

Premium Pricing refers to a credit from a Mortgagee for the interest rate chosen.

Prepayment in Full

A Prepayment in Full or Payoff is the payment in whole of the principal amount of the mortgage Note in advance of expiration of the term of the mortgage Note.

Primary Obligor

Primary Obligor refers to a person or entity who is legally or contractually obliged to make all principal and interest payments on a debt.

Principal Residence

A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

Private Savings Club

A Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

Property

Property refers to the real estate entity that will serve as adequate security for a specific FHA-insured Mortgage.

Property Flipping

Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

Property Value

Property Value refers to the value as determined by the FHA Roster Appraiser.

Proposed Construction



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Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.

Public Assistance

Public Assistance refers to income received from government assistance programs.

Rate and Term

Rate and Term refers to a no cash-out refinance of any Mortgage in which all proceeds are used to pay existing mortgage liens on the subject Property and costs associated with the transaction.

Real Estate Commission from Sale of Subject Property

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

Real Property

Real Property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Recovery from an Economic Event

Recovery from an Economic Event refers to the re-establishment of Satisfactory Credit.

Rental Income

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

Reserves

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Residential Mortgage Credit Report (RMCR)

RMCR refers to a credit report that provides details on items that have been flagged in a merged report as a result of combining reports from the three credit repositories (Equifax, Trans Union, and Experian).

Retirement Income

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

Revolving Charge Accounts

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

Sale of Real Property

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

Sales Concessions

Sales Concessions refer to non-realty items, upgraded features in newly constructed houses, and special financing incentives.

Sales Contract Date

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Sales Contract Date refers to the date the sales contract is executed by all parties.

Seasonal Employment

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

Self-Employment Income

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships
- corporations
- limited liability or "S" corporations
- partnerships

Settlement Statement

Settlement Statement refers to the closing disclosure required under Section 4 of the Real Estate Settlement Procedures Act.

Shared Well

A Shared Well refers to a well that services two to four homes where there is a binding Shared Well Agreement between the property owners that meets FHA requirements.

Short Sales

See **Pre-Foreclosure Sales**.

Simple Refinance

Simple Refinance refers to a no cash-out refinance of an existing FHA-insured Mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject Property and costs associated with the transaction.

Single Family

Single Family refers to one- to four-unit dwellings.

Site Condominium

A Site Condominium refers to a project of Single Family, totally detached dwellings encumbered by a declaration of condominium covenants or a condominium form of ownership. They have no shared garages or any other attached buildings. Project approval is required for Site Condominiums that do not meet this definition.

Slush Pit

A Slush Pit refers to a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

Social Security Income

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Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

Soil Contamination

Soil Contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.

Special Energy System

A Special Energy System refers to any addition, alteration, or improvement to an existing or new Structure that is designed to utilize wind, geothermal or solar energy to produce energy to support the habitability of the Structure.

Streamline Refinance

Streamline Refinance refers to the refinance of an existing FHA-insured Mortgage requiring limited Borrower credit documentation and underwriting.

Structure

Structure refers to a building that has a roof and walls, stands permanently in one place, and contains single or multiple housing units that are used for human habitation.

Surplus Land

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

Sweat Equity

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the Property being purchased.

Third Party Documents

Third Party Documents refer to those documents that are originated and signed outside of the control of the Mortgagee, such as the sales contract.

Third-Party Originator (TPO)

A Third-Party Originator (TPO) is an entity that originates FHA Mortgages for an FHA-approved Mortgagee acting as its sponsor. A TPO may be an FHA-approved Mortgagee or a non-FHA-approved entity.

Tiered Pricing

Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage points from the Mortgagee's reasonable and customary rate for insured Mortgages for dwellings located within the area.

Title I Mortgagee

A Title I Mortgagee is a Mortgagee that (a) holds a valid Title I contract of insurance and is approved by FHA or (b) held a Title I contract that has been terminated or suspended but remains responsible for servicing or selling the Title I Mortgages that it holds and is authorized to file insurance claims on these Mortgages.

Title II Mortgagee



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A Title II Mortgagee is a Mortgagee that has been approved to participate in Title II and/or Title XI programs under the National Housing Act (12 U.S.C. § 1707 et seq. and 12 U.S.C. § 1749aaa et seq.).

TOTAL

TOTAL refers to “Technology Open To Approved Lenders.” FHA’s TOTAL Mortgage Scorecard evaluates the overall creditworthiness of the borrower, based on a number of credit variables and, when combined with the functionalities of the Automated Underwriting System (AUS), indicates a recommended level of underwriting and documentation to determine a loan’s eligibility for insurance by the FHA.

Total Loan Amount

Total Loan Amount of the FHA Mortgage is the mortgage amount including the amount of any financed UFMIP. The insured mortgage amount is the Total Loan Amount.

Total Required Investment

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower’s downpayment and the Borrower-paid transaction costs. The Total Required Investment includes the MRI.

Trade Equity

Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash investment.

Trade-In of Manufactured Housing

Trade-In of Manufactured Housing refers to the Borrower’s sale or trade-in of another Manufactured House that is not considered real estate to a Manufactured Housing dealer or an independent third party.

Tri-Merged Credit Report (TRMCR)

TRMCR refers to a credit report that contains the data from all three credit repositories into one report.

Trust Income

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

Under Construction

Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.

Underserved Census Tracts

Underserved Census Tracts are those areas identified by HUD as meeting the definition found at 24 CFR § 81.2. Underserved Census Tract areas are: 1) tracts in metropolitan areas a) having a median income of no more than 90 percent of the area as a whole, or b) having a median income of no more than 120 percent and minorities comprise at least 30 percent of the tract’s population; 2) all tracts in any nonmetropolitan area which a) have a median income of no more than 95 percent of the nonmetropolitan part of the state or nation, whichever is greater, or b) have a median income of no more than 120 percent and minorities comprise at least 30 percent of the area’s population.

Uniform Residential Appraisal Report (URAR)

The *URAR* is the standard appraisal reporting form available through all lenders. Fannie Mae and Freddie Mac *URAR* forms are acceptable.



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Unimproved Property Appraisal

Unimproved Property Appraisal refers to the valuation of an interest in land without human made Structures.

Vacation Home

Vacation Home refers to a dwelling used primarily for recreational purposes and enjoyment and that is not a Principal or Secondary Residence.

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