FHA Standard

Amended 5/18/2017

Purpose	Max LTV	Credit Score
Purchase	96.5%[1,2]	550 [1,2]
No Cash-Out (Rate/Term) Refinance	97.75%[1,2]	550 [1,2]
Cash-Out	85%[1,2]	550 [1,2]

1 - High Balance loans require a minimum FICO of 580, transactions with FICO's from 580-599 are limited to 90% LTV
2 - Manufactured Home (Max $424,100) must have a FICO of 620

General	• Purpose - Purchase, Refinance Rate/Term or Refinance Cash Out • Terms Available - 15 and 30 Year Fixed Rate and 5/1 ARM • High Balance Terms Available 15 and 30 Year Fixed and 5/1 ARM • Occupancy - Primary Residence Only • AUS - DU Approve/Eligible or Manual UW • Minimum Credit Score - 550 (see matrix for limitations) • Minimum Loan Amount $75,000
CREDIT	
30 Day Accounts	• 30 Day Accounts – Are not included in the DTI if: o Documentation to show that the borrower paid the outstanding balance in full every month for the past 12 months must be provided (i.e. credit card statements), AND o There have been no late payments on in the past 12 months, AND o Documentation is provided to show that funds are available to pay off the balance in excess of any fund to close and required reserves • If the three requirements above cannot be met, 5% of the outstanding balance must be included in the DTI
Bankruptcy	• 2 years must have elapsed since completion or discharge of Chapter 7 Bankruptcy. Chapter 13 Bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Mortgage, if at the time of case number assignment at least twelve (12) months of the pay-out period under the bankruptcy has elapsed. • All BK 13 payments must have been made on time for the preceding 12 months • If BK has been discharged and not reported on credit documentation must be supplied showing debts discharged and final BK discharge must be provided • Document that the current situation indicates that the events which led to the bankruptcy are not likely to recur • Seasoning period begins from the recording date of discharge to the date of the case assignment
Collection / Charge Off / Judgement Accounts	• All judgments must be paid • Payment of Collection Accounts are at the discretion of the underwriter if cumulative total < $2,000 • If the cumulative outstanding balance for all collections of all borrowers (including a non-purchasing / non-borrowing spouse) is equal to or greater than $2,000 and the collection accounts will remain open after closing, the monthly payment must be included in the DTI using the payment arrangement or 5% of the outstanding balance for each collection (Medical collections and medical charge offs excluded)
Contingent Liability	• If a borrower is co-obligated on a mortgage, car loan, student loan or any other obligation including credit cards - the monthly payments must be included in the DTI unless documentation is provided to prove that the other party that is co-obligated on the account has been making payments during the most recent 12 month period and there have been no delinquencies. This must be documented by 12 months cancelled checks or other acceptable evidence including but not limited to a copy of the payment coupon and 12 months bank statements.
Deferred Obligations (Other)	Deferred Obligations (excluding Student Loans) • The actual monthly payment to be paid on a deferred liability must be used, whenever available. • If the actual monthly payment is not available for installment debt, must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.
Disputed Accounts	• If Total Scorecard issues a referral to manual underwriting based on the presence of one or more disputed accounts on the credit report, the Total Scorecard finding may be ignored if any of the following circumstances are present: o The disputed account has a zero balance, or o The disputed account is marked as "paid in full" or "resolved" or o The disputed account is both less than $1000 AND more than 24 months old

(continued)

Disputed Accounts (con't)	• If Total Scorecard issues an approval and the total outstanding balance of all disputed derogatory accounts (excluding medical) is less than $1,000 then downgrade to a manual underwrite is not required. However, if the total outstanding balance of all disputed derogatory accounts (excluding medical) have an aggregate balance equal to or greater than $1,000 then downgrade to a manual underwrite is required (disputed derogatory accounts of a non-purchasing / non-borrowing spouse in a community property state are not included in the cumulative balance for purposes of determining if the mortgage is downgraded to a manual underwrite.) Refer to 4000.1, II.A.4.6.iii (B) for complete requirements
Foreclosure	• 3 years must have elapsed since completion of a Foreclosure or Deed-in- Lieu. • Seasoning period begins on the date the property transferred recorded date ownership to the foreclosing lender through the date of the case assignment.
No Credit Score	Homepath Lending will consider loans where the coborrowering spouse has no credit score. Note that No Score loan pricing will be based on the primary borrower score when that score is <600 or from the No FICO adjustment listed on the rate sheet.
Short Sale	• If the borrower was in default at the time of the Short Sale, the wait period can be waived if the default was due to circumstances beyond the borrower's control and the borrower's credit was satisfactory prior to the circumstances beyond the borrower's control that caused the default. (see 4000.1 for details, section 4000.1.II.A.5.iii (J), manual downgrade required) • If the borrower pursued a Short Sale to take advantage of declining market conditions and is purchasing a similar or superior property within a reasonable commuting distance, the 3 year waiting period may not be waived • Seasoning period begins on the date the property was sold through the date of the case assignment unless it's a prior FHA mortgage. Exception for Borrower Current at 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.
Student Loans	• Regardless of the payment status, one of the following must be used: o The greater of 1% percent of the outstanding balance on the loan or the monthly payment reported on the Borrower's credit report; OR o The actual documented payment, provided the payment will fully amortize the loan over its term.
DTI/INCOME/ASSETS	
Calculating Gross Monthly Income	Gross monthly income should be calculated only for the occupying borrowers consistent with the requirements of HUD Handbook 4000.1, II.A.5,ix.2.F.1. • Do not include bonus, part-time or seasonal income that does not meet the requirements for effective income. • Do not include income from non-occupying co-borrowers, co-signers, non-borrowing spouses, or other parties not obligated on the mortgage. • Non-taxable income may be grossed up 115%
Calculating Monthly Expenses For Residual	• If available, mortgagees 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, mortgagees may rely upon current pay stubs. • For estimated maintenance and utilities in all states, mortgagees should multiply the living area of the property (square feet) by $0.14. **Example**: 1,500 square feet x .14 = $210.00 per month
Calculating Residual Income	Residual income is calculated in accordance with the following: • Calculate the total gross monthly income of all occupying borrowers. • Deduct from gross monthly income the following items: **Residual Income, Deductions From Gross Monthly Income** State income taxes Federal income taxes Municipal or other income taxes Retirement or Social Security Proposed total monthly fixed payment Estimated maintenance and utilities Job related expenses (e.g., child care) • Subtract the sum of the deductions from the table above from the total gross monthly income of all occupying borrowers. • The balance is residual income. • Non-taxable income may be grossed up 115% (grossed up portion must be backed out for residual calculation). Reference: HUD Handbook 4000.1, II.A.5,ix.2.F.1

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Conversion of Primary Residence / Departing Residence

- If rental income is being derived from the property being vacated by the borrower, the borrower must be relocating to an area 100 miles or more from their current residence and the following is required:
  - o Copy of a Lease agreement for at least 1 year duration from date of funding
  - o Documentation to evidence payment of security deposit or first month's rent being deposited into the borrower's account
- Rental income from departing residence may be used only if it can be documented that the borrower has at least 25% equity in the property, which must be documented by a 2055 drive by inspection. Rental income will be calculated using rental agreement (75% gross rent minus PITI).

Manual-Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, count all members of the household of the occupying borrowers without regard to the nature of their relationship and without regard to whether they are joining on title or the note.

Exception: As stated in the VA Guidelines, the mortgagee 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 loan analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table below, select the applicable loan 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.

Table of Residual Incomes by Region
For loan amounts of $79,999 and below

Family Size	Northeast	Midwest	South	West
1	$390	$382	$382	$425
2	$654	$641	$641	$713
3	$788	$772	$772	$859
4	$888	$868	$868	$967
5	$921	$902	$902	$1,004
over 5	Add $75 for each additional member up to a family of 7.			

Table of Residual Incomes by Region
For loan amounts of $80,000 and above

Family Size	Northeast	Midwest	South	West
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1,025	$1,003	$1,003	$1,117
5	$1,062	$1,039	$1,039	$1,158
over 5	Add $80 for each additional member up to a family of 7.			

The Regions on the Table of Residual Income include the following states:

Region	States
Northeast	CT, MA, ME, NH, NJ, NY, PA, RI, VT
Midwest	IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
South	AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC,TN, TX, VA, VI, WV
West	AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

Note: HUD is adopting this VA guidance solely for the purposes of calculating residual income for use as a factors. compensating factor on manually underwritten loans. Other VA underwriting policies cannot be used in connection with FHA loans, or cited as compensating

Click on this link to refer to most current FHA Handbook 4000.1:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1

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. 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 (not allowed for reserves on manual underwrite)
  Note: Excess gift funds may be counted as reserves when using TOTAL approval only;
- Equity in another property; or borrowed funds from any source

Reserves for 1-2 Unit Properties (Manual) – 1 month's PITI after closing
Reserves for 1-2 Unit Properties (TOTAL) - None
Reserves for 3-4 Unit Properties (Manual and TOTAL) – 3 months' PITI after closing

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Self Employed	• 2 years of personal and business tax returns required • Signed P&L and Balance Sheet required if one or more quarters have passed since taxes have been filed. Balance sheet not required for Schedule C borrowers.
Temporary Leave / Reduction in Income	• For borrowers with a temporary reduction of income due to short term disability or similar temporary leave, the current disability income may be considered as effective income if it can be documented with the following requirements regardless if they are returning to work before or after the first payment due date: o A written statement from the borrower's employer confirming all of the following: o Date of return to work o Position and compensation will remain the same o A written statement from the borrower confirming their intent to return to work, and the intended date of return o The borrower qualifies for the mortgage using the reduced disability income • If the borrower will be returning to work after the first mortgage payment due date, 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 may be used to qualify o 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. o Documentation of sufficient liquid assets, used to supplement the borrower's income through the intended date of return to work with current employer • If the borrower will be returning to work before or at the time of the first payment due date, the borrower's pre-leave income may be used to qualify.
PROPERTY	
3-4 Units	• 3-4 unit properties must be self-sufficient. • To determine if property meets self-sufficiency requirement, the following calculations are used: o Total of Fair Market Rents as reported by appraiser multiplied by vacancy factor must be equal or greater to PITI; And o PITI divided by net rent as calculated in #1 cannot exceed 100% (Vacancy factor of 25% will apply) • Reserves equivalent to three months PITI are required and gift funds are not permitted • If there is a non-occupying co-borrower and the loan is a purchase, the LTV may not exceed 75% • Borrower(s) must sign/date the FHA Hotel & Transient Form
Condo	• Condominiums must be FHA approved • Site condominiums do not require HUD project approval • HUD REO's do not require FHA Condominium Project Approval • HO6 Coverage is required unless Master Policy porvides Walls-In coverage • To look up a project to check if it is approved, go to: https://entp.hud.gov/idapp/protect/condlook.cfm • Site Condos must be presented on a Fannie Mae form 1073, Individual Condominium Unit Appraisal report. HOA Cert must meet the following: • 50% Occupancy or FHA Concentration required • ≤ 15% HOA dues delinquent • ≤30% FHA Pre-Sale Requirement for New Construction • Reserves equal to 10% of budget for capital expenditures & deferred maintenance • Fidelity Bond Insurance: ≥ 20 units in the project require noless than 3 months aggregate assesments on all units plus reserve funds • HO6 Coverage • UW to complete "Lenders Certification for Individual Unit Financing Form"
Eligible Properties	• Attached/Detached SFRs • PUDs • HUD-approved Condos • 2-4 Units • 1 Unit Manufactured Homes - double wide only (Minimum FICO 620)
Escrow Holdback for Minor Repairs	• Allowed for repairs that do not present a health or safety concern and do not affect the structural integrity of the property. • $5,000 limit on required repairs • 1.5 times the repair cost to be held by escrow and released upon clearance by HomePath Lending's written authorization • Repairs to be completed witihin 10 days of closing

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FHA Flips	• Properties sold ≤ 90 days are not eligible • Properties sold 91 to 180 days must meet the following requirements: o A Mortgagee must obtain a second appraisal by another Appraiser if: • 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. • The seller must be the owner of record • Appraisers are required to analyze any prior sales of a subject property in the previous 3 yrs. for 1 to 4 family residential properties per USPAP standards • HUD owned properties are excluded see 4000.1 for details.
Manufactured Homes	Homepath Lending will accept loans for manufactured properties with the following attributes: • 620 Minimum Qualifying Credit Score • Primary Residence and Second Home Only • Max $424,100 Loan Amount, no High Balance Allowed • Mortgage delinquencies in the last 12 months not permitted • Property Specific Information o Built June 15, 1976 or later o Doublewide or larger home with floor area of ≥ 600 square feet o Property may not be in a flood zone o Manufactured Condos not allowed o Property must be permanently attached with towing hitch, wheels and axels removed o Manufactured home must be on original site, relocated homes are not permitted o Additions to the property are not permitted if the addition was to add GLA or if there were structural changes to the home (additions such as decks and green rooms without structural changes to the property may be accepted) o Borrower must own the land on which the home is located o Title must be held fee simple • Property must not be located in a deed restricted area including restrictions for age and income • HUD Certification Labels (metal plates attached) or IBTS Verification if not attached to the property • HUD Data Plates (Paper Certification located on the interior of the property) or IBTS Verification • Affidavit of Affixture (or its equivalent) to evidence property is classified and taxed as real property • New Construction will require a Structural Engineer's report to show that the property is designed to be used as a dwelling with permanent foundation and meets HUD requirements • The foundation must be inspected by the appraiser and appraiser to comment that the home is on permanent foundation consisting of either a slab or permanent concrete footings and anchored with tie-downs • Structural Engineer's report to determine if home is designed to be used as a dwelling with a permanent foundation built to FHA criteria. Homepath Lending will consider minor structural additions and modifications (i.e. carport, patio cover) to the property pending a structural engineer's report and inspection by the State Administrative Agency showing the home complies with safety standards. The cost for this inspection must be paid by the borrower. • Finished grade elevation beneath the manufactured home or, if a basement is used, the grade beneath the basement shall be at or above the 100-year return frequency flood elevation. HUD waivers are not accepted. (For properties in flood zone - Elevation Cert and LOMA determination of above will be at cost to borrowers.) • All-weather roadway and adequate vehicular access from a public right of way • Appraiser to review structural engineer's report

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<table>
<tr><th colspan="2">MISCELLANEOUS</th></tr>
<tr><td>Unpermitted</td><td>• Garage Conversions:
o If the garage door is still attached: The appraiser must appraise it as a garage, assign a cost to cure, state whether it was done in a workmanlike manner and that the addition conforms to the original structure and meets HUD Minimum Property Requirements
o If the garage door has been removed: The above requirements apply and the appraiser must include at least one comp that has an unpermitted garage conversion with the door removed in order to give it value as a garage. If the appraiser cannot find at least one comp to support that this is common for the area, no value may be given to the garage at all
• Unpermitted Room Additions: HUD allows unpermitted room additions, such as a bedroom, bathroom, etc. The appraiser must certify that it has been done in a workmanlike manner, conforms to the structure and meets HUD Minimum Property Requirements. If the appraiser gives the unpermitted room addition value, HUD requires at least one comparable closed sale to document market acceptance of the property. If no closed comparables are available, value may not be given to the room addition(s)
• Unpermitted Accessory Units: HUD allows unpermitted accessory units, also referred to as mother-in-law units or guest quarters. It is the appraiser's responsibility to certify that the property complies with local zoning requirements. Additionally, the appraiser must comply with the same requirements as listed above for unpermitted room additions. A very important requirement is that the accessory unit may not be income producing.
• Unpermitted / Illegal Units: This type of unit differs from an accessory unit insofar that it is income producing and has separate electrical / gas meters and does not comply with local zoning requirements. This is not permitted under any circumstances.</td></tr>
<tr><td>ADP/Section of the Act</td><td><table><tr><th>Section of the Act</th><th>ADP Codes for DE</th><th>Property Types</th></tr><tr><td>203b</td><td>703</td><td>SFR</td></tr><tr><td>Site 203b/Condo 234c</td><td>734</td><td>Condo</td></tr><tr><td>203b</td><td>729</td><td>ARM</td></tr></table></td></tr>
<tr><td>Cash-Out on Short Pay-Off</td><td>Not allowed</td></tr>
<tr><td>Down Payment Assistance Programs (DPA)</td><td>Considered on a case by case basis from government entities only and must be in accordance with Handbook 4000.1 Section II.A.4.d.iii.(J).(1)
Secondary financing must be disclosed at the time of application
Costs for secondary financing may not be financed into the FHA loan
The insured FHA first mortgage may not exceed the county limits for the subject property
Payments for the secondary financing must be included in the total mortgage payment
Borrower must meet minimum required investment in accordance with Handbook 4000.1 (see Source Requirements for the Borrower's Minimum Required Investment)
Secondary financing may not result in cash back to the borrower
Secondary financing may not have a balloon payment within 10 years from the date of execution
Secondary financing legal documents (note and deed of trust/mortgage) must name the Governmental Agency as the Mortgagee
For required documentation please reference Handbook 4000.1 Section II.A.4.d.iii.(J).(1).(c)</td></tr>
<tr><td>FHA Refinance consolidating 1st and 2nd liens</td><td>An FHA Refinance involving the refinance of both 1st and 2nd liens into a single FHA loan, in which the 2nd lien was a HELOC more than 12 months old, is permissible as a Rate and Term refinance. The HELOC loan balance eligible to be added to the new loan amount would be:

• The current loan balance, if there were no draws in the last 12 months or if the draws were for the purposes of repairs and rehabilitation.

• If there were draws in the last 12 months which were for the purposes other than repair and rehabilitation, only the draws of up to $1,000 may be added to the refinance loan amount.

• 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. These amounts must be paid from the Borrower's funds at closing or the transaction must be treated as a Cash-Out Refinance and must meet the Cash-Out refinance guidelines (85% LTV, etc.).</td></tr>
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Identity of Interest	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: • child, parent, or grandparent; o a child is defined as a son, stepson, daughter, or stepdaughter; o 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. Identity of Interest transactions may result in a reduced maximum loan-to-value limitation. (see below) 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. • Exceptions to the Maximum LTV The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances. o Family Member Transactions - The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence:
Identity of Interest (con't)	• 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. o 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. o 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. o Tenant Purchase - 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.

LTV/CLTV Limitations

Transaction	LTV
Purchase	96.50%
Simple Refinance (FHA to FHA)	97.75%
No Cash out Refinance with 12 month payment history and occupied for previous 12 months or since acquisition if acquisition if acquired less than 12 months as of Case Assignment date	
No Cash Out Refinance who has occupied the subject as their Principal Residence for fewer than 12 months or if owned less than 12 months, has not occupied the property for that entire period of ownership as of Case Assignment date	85.00%
Cash Out Refinance	85.00%
Identity of Interest transaction	
Non-occupant borrower transaction	75.00%
Note: LTV can be increased to a maximum of **96.5%** if the borrowers are family members and does not involve: **Family member selling to a family member who will be a non occupying co-borrower**; or transaction on **2-4 unit property**	

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Manual-Documenting Acceptable Compensating Factors	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) • reserves are equal or exceed six total monthly mortgage payments (three and four units). Funds and/or "assets" that are not to be considered as cash reserves include • gifts; • borrowed funds; and • cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the loan transaction. A portion of a borrower's retirement account (IRA, Thrift Savings Plan, 401k, and Keogh accounts) to calculate cash reserves, subject to the following conditions: • to account for withdrawal penalties and taxes, 60% of the vested amount of the account, less any outstanding loans, may be used. Document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower's employment termination, retirement, or death. • if withdrawals can be made only in connection with the borrower's employment termination, retirement, or death, the retirement account may not be used to calculate the borrower's cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves. Reference: Refer to HUD Handbook 4000.1, II.A.5.ix.B for information on documenting Verified and Documented Cash Reserves.
	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%, whichever is less; and • there is a documented twelve 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 mortgagees may not cite this compensating factor. Reference: Refer to HUD Handbook 4000.1, II.A.5.ix.C for information on documenting Minimum Increase in Housing Payment
	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 he or she is an authorized user do not qualify under this criterion. Reference: Refer to HUD Handbook 4000.1, II.A.5.ix.D for No Discretionary Debt

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Manual-Documenting Acceptable Compensating Factors (con't)	Significant Additional Income Not Reflected in Gross Effective Income	Additional income from bonuses, overtime, part-time or seasonal employment that is not reflected in gross effective income can be cited as a compensating factor subject to the following requirements • the mortgagee 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.
	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 VA Pamphlet 26-7.

Manual Underwriting Maximum Qualifying Ratio Matrix

Manual Underwriting Guidelines

All manually underwritten loans require:

Minimum Reserve Requirements
1 and 2 unit properties ≥ 1 Month PITIA
3 and 4 unit properties ≥ 3 Month PITIA

The maximum total monthly mortgage payment to gross effective income ratios and total monthly fixed payments to gross effective income ratios applicable to manually underwritten loans are summarized in the matrix below.

Manual Underwriting Matrix For Maximum Qualifying Ratio with Acceptable Compensating Factors per 4000.1 II.A.5.viii (manual)

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
550 - 579	31/43	Not Applicable. Borrowers with Minimum Decision Credit Score below 580, or with no credit score may not exceed 31/43 ratios. Energy Efficient Homes may have stretch ratios of 33/45.
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: • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). • New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve 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. • Residual Income

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Manual Underwriting Maximum Qualifying Ratio Matrix (con't)	580 and above	40/50	**Two** of the following: • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). • New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve 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. • Verified and documented significant additional income that is not considered effective income (i.e., part-time or seasonal income verified for more than one year but less than two years). • Residual Income.
Manual Underwrite Factors	The following circumstances require a manual downgrade when Approve/Eligible is obtained: • The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard • 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 that requires a downgrade as defined in the 4000.1 listed under Housing Obligations / Mortgage History. A current delinquency: • Any delinquency within 12 months of the case number assignment date; or • More than 2 x 30 within 24 months of the case number assignment date • Business income shows a greater than 20 percent decline over the analysis period.		
Maximum Loan Amount	Please follow link to determine loan amount and not to exceed county loan limits: • https://entp.hud.gov/idapp/html/hicostlook.cfm		
POA (Power of Attorney)	Power of Attorney closings will be accepted with the following criteria: • Absent party must sign the initial 1003 (must be face to face interview) and the purchase contract • POA must be a specific to the transaction (cannot be used on Cash Out Refinance or TX 50a6) • POA must include the borrower name, property address and loan amount • POA must be fully executed and notarized prior to the Note date • POA must be approved by Homepath Lending prior to loan closing • POA must be recorded along with the deed of trust / mortgage • POA signatures on docs must clearly reflect Attorney-in-fact For military personnel: when the service member is on overseas duty or on an unaccompanied tour; where the attorney-in-fact has specific authority to encumber the property and to obligate the borrower Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.		

(continued)

FHA Standard

Amended 5/18/2017

PACE / HERO Obligations	Property Assessed Clean Energy (PACE) and Home Energy Renovation Opportunity (HERO) are typically used as financing sources for borrowers who wish to install solar energy items to their homes. These financing instruments are recorded against the property and collected through property tax bills in the same manner as a special assessment. • Homepath Lending will allow the subordination of a lien associated with these instruments provided they meet the following criteria: • Under the laws of the state where the property is located, the PACE obligation is collected and secured by the creditor in the same manner as a special assessment against the property • The property may only become subject to an enforceable claim (i.e., a lien) that is superior to the FHA-insured mortgage for delinquent regularly scheduled PACE special assessment payments. The property shall not be subject to an enforceable claim (i.e., lien) superior to the FHA-insured mortgage for the full outstanding PACE obligation at any time (i.e., through acceleration of the full obligation). However, a notice of lien for the full PACE obligation may be recorded in the land records. • There are no terms or conditions that limit the transfer of the property to a new homeowner. Legal restrictions on conveyance arising from a PACE obligation that could require the consent of a third party before the owner can convey the Real Property are prohibited, unless such provisions may be terminated at the option of, and with no cost to, the owner • The existence of a PACE obligation on a property is readily apparent to lenders, appraisers, borrowers and other parties to an FHA-insured mortgage transaction in the public records and must show the obligation amount, the expiration date and cause of the expiration of the assessment, and in no case may default accelerate the expiration date. • In the event of a sale of the property with outstanding PACE financing, including a foreclosure or deed-in-lieu of foreclosure sale, the obligation will continue with the property causing the new homeowner to be responsible for the payments. • When purchasing a property with an outstanding PACE obligation, the sales contract must indicate whether the obligation will remain with the property or be satisfied by the Seller at, or prior to closing. Where the obligation will remain, all terms and conditions of the PACE obligation must be fully disclosed to the Buyer/Borrower and made part of the sales contract between the Seller and the Buyer/Borrower. • The appraiser must report the outstanding amount of the PACE obligation for the subject property and provide a brief explanation of the terms. • Where energy or other PACE-allowed improvements have been made to the property, and the PACE obligation will remain outstanding, the appraiser must analyze and report the impact on value, whether positive or negative, of the energy-related improvements and any additional obligation (i.e., increased special assessments). The payment for the lease should be included in the debt to income ratio as part of the property taxes . The subordination of a PACE/HERO obligation does not affect the CLTV of the loan as it is not considered a mortgage lien. Subordinated PACE/HERO obligations must be impounded with property taxes when impounds are requested or required. Note that PACE/HERO obligations that are being paid in full at or before closing require no special approval, however, proof must be provided that the lien has been satisfied or will be satisfied through closing. If funds from the transaction are being used to satisfy these obligations the loan will be considered cash out.
Subordinate Financing	Subject to County Limits