

FHA UNDERWRITING GUIDELINES

****For quick search results, utilize the word search option in the PDF document****

NOTE: The following guidelines are to be used in conjunction with an acceptable AUS Accept/Approve response. Loans receiving a Refer response will follow the guidelines outlines in HUD Handbook 4155.1 and subsequent applicable Mortgagee Letter.

APPRAISAL REQUIREMENTS



Age of Appraisal

- **Case Numbers Assigned prior to January 1, 2010:** Appraisals are valid for up to 6 months.
- **Case Numbers Assigned on or after January 1, 2010:** Appraisals are valid for up to 120 days.

Appraisal Form

- Based on property type, the following appraisal report form must be used:

PROPERTY TYPE	FORM NAME
SFR, PUD	Uniform Residential Appraisal Form (#1004 / #70)
Condominiums (include site condos)	Individual Condominium Appraisal Report (#1073 / #465)
2-4 units	Small Residential Income Property Appraisal Report (#1025 / #72)

Appraisal Report Requirements

- All appraisals for FHA loans must be completed by a HUD-approved appraiser and include the following items:
 - Statement of Limiting Conditions
 - Appraiser's Certification
 - Market Conditions Addendum (Fannie Mae Form 1004MC)
- When completing the appraisal report form, HUD does not require the cost and depreciation for an older existing home or the income approach for a one- or two-unit owner occupied home.
- HUD requires an appraiser to provide summary comments and support for all conclusions relating to the trend of the current market. An appraiser must:
 - Include a minimum of two active listing or pending sales on the appraisal form (in addition to the three closed sales).
 - Include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal; otherwise, a detailed explanation is required why the sales could not be provided.
 - Ensure active listings and pending sales are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood.
 - Adjust active listings to reflect list to sale price ratios for the market.
 - Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.
 - Include the original list price, any revised list prices, and total days on the market.
 - Reconcile the adjusted values of active listing or pending sales with the adjusted values of the settled sales provided.
 - Include an absorption rate analysis.

FHA UNDERWRITING GUIDELINES

- For additional details, refer to Mortgagee Letter 2009-09

Appraisal Reviews

- A satisfactory AVM is required for all loans.
- LARAs & Field Reviews are not required but may be ordered at the discretion of the Underwriter.

Appraisal Update/Completion reports

- **Case Numbers Assigned prior to February 15, 2010:** Use Compliance Inspection Report HUD-92051. Existing guidelines in HUD Handbook apply.
- **Case Numbers Assigned on or after February 15, 2010:** The Appraisal Update and/or Completion Report (Fannie Form 1004D/Freddie Mac Form 442) may be used in lieu of the Compliance Inspection Report (except on New Construction) per HUD Mortgagee Letter 2009-51. The Completion Report may not be used in lieu of the Compliance Inspection Report on new construction.

Case Number

- Appraisals cannot be ordered until the case number has been ordered.
- Bay Equity may assign the appraiser before receiving the case number, but the appraisal cannot be completed until the case number is received.
- The case numbers must be placed on all pages of the appraisal report.

FHA Appraisal Roster

- The FHA Roster lists appraisers who are eligible to perform FHA single-family appraisals. To conduct an appraisal for FHA insurance endorsement, the appraiser must be on the FHA Roster and listed as certified residential or certified general.

FHA Second Appraisal Requirements

- A second appraisal must be obtained by another appraiser if:
 - The re-sale 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% or more over the price paid by the seller when the property was acquired
 1. Loan must be based on the lower of the two values. Borrower cannot pay for the appraisal.
 2. The second appraisal must be completed by an FHA roster appraiser selected by Bay Equity. Condominiums (included detached) and 2-4 units properties must be completed on the appropriate appraisal form.
 3. Both appraisals must be completed prior to loan closing.
 4. FHA Connection must reflect the lower of the two appraised values.
- Bay Equity reserves the right to require additional documentation to support the resale value of a property if:
 - The resale date is more than 90 days after the date of acquisition by the seller, but before the end of the twelfth month following the date of acquisition, and
 - The resale price is 5 percent or greater than the lowest sale price of the property during the preceding 12 months

Health and Safety Issues

- Appraisers must comment on all health and safety issues and all deficiencies and needed repairs.
 - Security Bars: there must be an emergency release latch for at least one window in each room where the security bars are located.

FHA UNDERWRITING GUIDELINES

Photograph Requirements

- MLS photos or photos used for previous appraisals are unacceptable for the subject and comps. However they may be included as a supplement to photos taken by the appraiser.
- Interior photographs of specific rooms must be included in the appraisal report whenever an interior inspection is performed. At a minimum interior photos must include:
 - Kitchen
 - All bathrooms
 - Main living area
 - Examples of physical deterioration (if present)
 - Examples of recent updates/restoration/remodeling/renovation (if present)

Portability of Appraisals

- Bay Equity will accept transferred appraisals in compliance with HUD Mortgagee Letter 2009-29
- Appraisal must be emailed directly from the previous lender to Bay Equity
- A signed letter from the borrower requesting the transfer of the appraisal from the current lender to Bay Equity is required.
- Appraisal must meet Bay Equity's published appraisal guidelines.
- An AIR Compliance Certification is required from the AMC or Appraiser. This certification may be contained within the appraisal or on a separate form.

Property Flipping

The term property **flipping** refers to the practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value.

- Appraisers are required to analyze any prior sales of a subject property in the previous three years for one to four family residential properties.
- Refer to "Property Eligibility" if a property is re-sold 90 days or fewer following the date acquisition by the seller

Transfer History and Documentation Requirements:

- All title transfers in previous 12 months must be documented and reviewed in detail.
- **Any** increase in property value (including repairs and upgraded) in previous 12 months must be reviewed, supported and documented by the Appraiser and Underwriter.

Re-Inspection and Review Requirements for Disaster Areas

- Bay Equity requires additional property re-inspection and review requirements on loans secured by properties located in disaster areas. Any adverse event (including, but not limited to: fire, earthquake, landslide, hurricane, flood, tornado, thunderstorm, etc) that may have impacted a subject property must be evaluated in terms of its effect on the subject's habitability, marketability and value. It is important to note that not all disaster areas as determined by Bay Equity are qualified as FEMA disaster declarations.
- In the event of multiple adverse events (e.g. one hurricane followed by another) the Appraisal Update or Inspection of Property Condition must occur after the most recent event.
- Bay Equity will lend on properties that are located in declared disaster areas provided the following requirements are adhered to and documented in the loan file.

For appraisals performed ON OR BEFORE the Disaster Date one of the following must be provided:

FHA UNDERWRITING GUIDELINES

1. Appraisal Update(Fannie Form 1004D/Freddie Mac Form 442)
 - The document must address the specific disaster and indicate any apparent damage.
 - If the subject property has sustained more than minor cosmetic damage, a new interior appraisal is required and all damage must have been repaired prior to funding. A 1004D (Completion of Repairs) is to be completed with photos prior to funding.
 - If there is no damage, the appraiser/inspector must provide the following commentary: Property is free from damage and the disaster has no affect on value or marketability.
2. Inspection of Property Conditions Certification
 - An Inspection of the property condition may be completed in lieu of an Appraisal Update when a disaster has affected the subject property's area and the subject has sustained no damage.
 - When a property inspection is used the following requirements must be met:
 - A minimum of one clear photo of the subject must be provided.
 - The inspection certification must be signed by the original appraiser or Licensed Property Inspection.
 - The inspection may be provided on either corporate letterhead or a Certification of Property Inspection form.
 - Unlicensed appraiser assistants are is not authorized to perform this inspection.
 - If there is no damage, the appraiser/inspector must provide the following commentary: Property is free from damage and the disaster has no affect on value or marketability.

For appraisals performed AFTER the Disaster Date the following requirements apply:

- An interior inspection is required in all Declared Disaster areas from the day following the Disaster Date until the expiration of the Disaster Notice (generally 120 days from the date of the original event, but may be extended).
- All comparables should be post-disaster. However, if sufficient comparables are not available, then the appraiser must provide current photos (post disaster) of the subject and comparables. (MLS photos or photos used for previous appraisals are unacceptable).
- If the appraisal indicates damage: The extent of the damage must be addressed. Completion of repairs is required as evidenced by form 1004D with photos prior to funding.
- If the appraisal indicates no damage: The appraiser must provide the following commentary: Property is free from damage and the disaster has no affect on value or marketability.

Additional Requirements for FHA STREAMLINE loans in Disaster Areas

- FHA Streamline Refinance loans do not require an appraisal. To ensure that the property has not been damaged, Bay Equity requires an exterior inspection to be performed by and FHA-approved inspector.

FHA UNDERWRITING GUIDELINES

ASSETS



Business Assets

- Corporations, Partnerships or LLC: Business funds may not be used for down payment or reserve requirements regardless of if the borrower is 100% owner.
- Schedule C (Sole Proprietorship): Borrower may use business funds to meet only down payment requirements (may not be used for reserves). Underwriter must determine that the withdrawal of business funds will not adversely impact the business.

Cash on Hand

- Borrowers who have saved cash at home, and are able to adequately demonstrate the ability to do so, are permitted to have this money included as an acceptable source of funds to close the mortgage.
- To include cash saved at home when assessing the borrower's cash assets, the money must be verified, whether deposited in a financial institution or held by the escrow/title company, and borrower must provide satisfactory evidence of the ability to accumulate such savings:
 - Must document that borrower typically does not use bank accounts (savings account is acceptable and checking account with minimal activity is acceptable on a case by case basis).
 - Borrower is a limited credit user
 - Borrower provides a detailed letter explaining how much was saved and how long was needed to it, accompanied by a budget based on net income that supports the explanation.

Cash Reserves

Applies only to purchases, not refinances.

- 1-2 Units: None
- 3-4 Units: Three months PITI available after closing
 - Reserves must be borrower's own funds (cannot be a gift)

Depository Accounts

- Loans receiving and "Accept/Approve" response require a 1 month statement showing the previous month's ending balance.
- If the previous month's balance is not show, then obtain statement(s) for the most recent two months.
- A Verification of Deposit (VOD) is generally NOT acceptable as the only documentation for assets, but may be provided in addition to a bank statement.

Down Payment

- The borrower must make a minimum cash investor of 3.5% (Statutory Investment Requirement), based on the lesser of the sales price or appraised value.
- Payment of closing costs cannot be used to help meet the minimum 3.5% down payment.
- Down payment that is from a Down Payment Assistance Program must confirm eligibility with Bay Equity. Refer to Subordinate Financing for more information.

Earnest Money Deposit

- Must be verified in one of the following ways:
 - If the Earnest Money check HAS cleared: Provide a copy of the borrower's canceled check and bank statement (up to and including the date the check cleared) to evidence sufficient assets were available.

FHA UNDERWRITING GUIDELINES

- If the Earned Money check HAS NOT clear: Provide verification there are sufficient funds on deposit in the borrower's account(s) to cover the earnest money and any other funds required to close
- The source of the deposit check must be documented to ensure that the deposit is not counted twice in the file.

Gift Funds

- Acceptable gift funds
 - An outright gift of cash investment is acceptable if the donor is:
 - A relative of the borrower
 - The borrower's employer or labor union
 - A charitable organization (see below)
 - A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time home buyers
 - A close friend with a clearly defined interest in the borrower
 - A gift from any other source is considered an inducement to purchase and requires a reduction to the sales price.
 - Donors may borrower gift funds from an acceptable source, not from a party to the loan transaction including the mortgage lender.
- Gift Letter Requirements
 - The gift letter must:
 - Specify the dollar amount given
 - Be signed by the donor and the borrower
 - State that no repayment is required
 - Show the donor's name, address, telephone number and relationship to the borrower.
 - Additionally, the gift letter must contain language asserting that the funds given to the homebuyer were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associate with them.
- Gift Transfer Documentation
 - Gift funds in the Homebuyer's Account:
 - Document the transfer with a copy of the canceled check or withdrawal document showing the withdrawal is from the donor's personal account and the homebuyer's deposit slip or bank statement showing the deposit.
 - Funds Provided at Closing:
 - Certified check/Money Order (or similar): If the transfer of gift funds is by certified check, money order or similar from the donor's account provide a copy of the check and a bank statement from the donor showing the withdrawal.
 - Personal Check: If the transfer of gift funds is by personal check as a means of transferring gift funds provide a withdrawal document or a copy of the canceled check.
 - If the donor borrowed the gift funds and cannot provide the documentation from his/her bank to evidence ability then the donor must provide evidence that those funds were borrowed from an acceptable source (not from a party of the loan transaction or mortgage lender).
- Unacceptable Gift Funds
 - Except for eligible donors described above, the donor of the gift may not be a person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them.

FHA UNDERWRITING GUIDELINES

- This restriction may be waived by the local FHA Homeownership Center (HOC), provided that the seller is operating or contributing to an acceptable affordable housing program. Gifts from these sources are considered inducements to purchase and must be subtracted from the sales price. This includes properties where the seller is a government agency selling foreclosed properties, such as the Veterans Administration, Farmers Home Administration, or Resolution Trust Corporation.
- Cash-on-hand is not an acceptable source of donor gift funds.

Retirement Accounts

- To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may count towards reserves.
- The account must be documented with the most recent depository or brokerage account statement.
- **Employer Sponsored Accounts (e.g. 401K)**: Evidence must be provided that the retirement account allows for withdrawals for conditions other than in connection with the borrower's employment termination, retirement or death. If withdrawals can only be made under these circumstances the retirement account may not be included as cash reserves. This documentation can be waived with evidence of liquidation for funds to close.

Sale of an Asset

- If an asset other than real estate or exchange-traded securities is sold to accumulate funds to close obtain the following:
 - Bill of sale signed by buyer
 - Evidence of sale proceeds
 - Document existence, ownership and value of the asset

Sale of Home

- Obtain a signed Final HUD-1 or equivalent closing settlement statement
- If the borrower is being transferred by his or her company under a guaranteed sale plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

Sourcing of Funds and Large Deposits:

- In order to be counted towards funds to close and reserves; all non-payroll deposits must be fully paper-trailed and explained.
- Funds must be from an eligible source.
- Verification must be obtained that no recent debts were incurred to obtain part or all of the cash investment for the property.
- **Sourcing of deposits for funds not being used for closing or reserves**: A single deposit up to \$500 may not require paper trailing. However a letter of explanation is required from the borrower.

Stock and/or Bond Accounts

- Loans receiving and "Accept/Approve" response require a brokerage statement for each account for the most recent 2 months.
- Liquidation of funds is required if being used for funds to close.

FHA UNDERWRITING GUIDELINES

BORROWERS



Eligible Borrowers

- Eligible borrowers include individuals and investors (under limited circumstances). Eligible borrowers must provide evidence of valid Social Security numbers (SSN) on all FHA loans.
- Evidence includes a copy of the borrower's
 - Social Security card (Tax Identification numbers (TINs) are not allowed)
 - OR
 - Pay stub, W-2, or other government-issued card that includes the borrower's Social Security number.
 - In addition, FHA requires validation of Social Security of consistency with the borrower's name and date of birth through FHA Connection or its equivalent.
- Issues regarding Social Security numbers should be resolved before loan closes.

Identity of Interest

- Identity-of-interest transactions on principal residences are restricted to a maximum LTV ratio of 85%.
- Maximum financing above 85% LTV is allowed under the following circumstances:
 - A family member purchasing another family member's principal residence.
 - An employee of a builder purchasing one of the builder's new homes or models as a principal residence.
 - A current tenant purchasing the property that the tenant has rented for at least six months predating the sales contract. A lease or other written evidence must be submitted verifying occupancy.
 - Sales by corporations that transfer employees out of an area, purchase the transferred employee's home, and then resell to another employee.
 - If there is an identity-of-interest between the buyer and the property seller, commission from the sale or listing of the property cannot be used for the down payment.

Non-Occupant Co-Borrowers

- Allowed per FHA published guidelines
- Must be a family member or max LTV is 75%
- May not be added to meet qualifying requirements for a cash-out refinance.

Restricted Family Member Transactions:

- If the property being sold from one family member to another is the property seller's investment property, the maximum mortgage is the less of either:
 - 85% of the lesser of the sales price or appraised value, or
 - The current maximum mortgage calculation formula (per ML 98-29)
- The 85% limit may be waived if the family member has been a tenant in the property for at least six months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy.

Living Trust

Not Allowed

Maximum Number of Borrowers

Maximum four borrowers on a transaction

FHA UNDERWRITING GUIDELINES

Military Personnel

Military personnel stationed elsewhere are considered occupant-owners and are eligible for maximum financing provided a member of the immediate family will occupy the property as a principal residence.

Non-Permanent Residents

Non-permanent resident aliens are eligible provided they:

- Occupy the property as a principal residence
- Have a valid Social Security number
- Are eligible to work in the United States and reasonable expect to continue for 3 years

Power of Attorney

A Power of Attorney can be acceptable instrument used to close a loan. All transactions involving a POA must be approved by Bay Equity's Management.

- Limited, Specific or Durable POA's only
- A copy of the POA is required from Title/Escrow
- POA cannot be utilized on the initial loan application
- At least one borrower must be present at loan signing (Underwriter can approve exceptions allowed on case by case with acceptable explanation)
- Signatures and typed names must match exactly

CLOSING REQUIREMENTS



Closing Costs

- Allowable Fees: Originators may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage. These fees may not be used to meet the borrower's minimum investment requirement. Fees paid by a borrower must be both reasonable and customary for the area and meet all other regulatory requirements.
- Consulting and Referral Fees: Loans are ineligible if fees, such as consulting, referral, or the equivalent were paid. The estimated HUD-1 closing statement should be reviewed to identify any unacceptable disbursements prior to closing.

Escrows

- Escrow/impound accounts are required for property tax and insurance. The amount must be included in qualifying ratios.
- Escrow Holdbacks are not allowed.

Interest credit allowed

- Loan may fund by the 5th calendar day of the month preceding the first payment date.
- Exceptions are available with manager approval, but never to exceed the 7th calendar day.
- Termite, Well and Septic Inspections/Certifications are required as noted on appraisal and/or sales agreement. (See TIP zones requirements)
- A minimum of 24 months chain of title as evidence by the title commitment satisfactory to Bay Equity's review and meeting FHA anti-flipping requirements published in ML 06-14 and subsequent Mortgagee Letters.

Interested Party contributions

FHA UNDERWRITING GUIDELINES

- Contributions exceeding 6% of the sales price or exceeding the actual cost of prepaid expense, discount and other financing concessions will be treated as inducements to purchase, thereby reducing the amount of the mortgage.
- The 6% limitation also includes property seller payment for permanent and temporary interest rate buydowns and other payment supplements, mortgage payment protection insurance, and payment of UFMIP.
- Contributions may be applied to both reoccurring and non-reoccurring closing costs

Negotiation Fees

- Negotiation fee are allowable per the following requirements:
 - Must be deemed reasonable and paid to legitimate entity
 - Must benefit or help the borrower obtain a new home
 - Negotiation fees may only be paid to individuals with a real estate license
 - Bay Equity's detailed written analysis and documentation must clearly verify this type of negotiation fee as follows:
 - Fully signed acknowledged Purchase Contract outlining the negotiation fee
 - The appraiser needs to provide the detail on the appraisal along with their full analysis on how this additional cost, to the borrower affects the value of the property.
 - This fee must be treated as an additional settlement charge. It must be omitted from the GFE and shown in the 1300 serious on the HUD-1 [miscellaneous settlement charges] or on Lines 104 or 105 [additional items owed by the borrower].
 - This negotiation fee is not part of the 3.5% down payment requirements.
 - The negotiation fee funds must be verified and documented as required funds to close.

Real Estate Commission Limitation

- Any aggregate real estate commission including a "bonus" greater than 8% is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price
- The appraiser is required to disclose whether the purchase contract was received and, if so, comment on any excessive sales commission. Any excessive sales commission should be taken into consideration when arriving at the final value.

COMMUNITY PROPERTY STATE



Community property states

- AZ, CA, CO, ID, MT, NM, NV, OR, TX, UT, & WA

If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply:

- A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected
 - Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.

FHA UNDERWRITING GUIDELINES

- Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.
- Except for those obligations specifically excluded by state law (see chart below for AZ), the debts of the non-purchasing spouse must be considered in the qualifying ratios. If the debts are the sole responsibility of the non-purchasing spouse, do not consider debt in the DTI.
- The greater of the monthly payment amount or 5% of the outstanding balance if minimum payment is not reflected on credit report if the non-purchasing spouse must be included in the qualifying ratios
 - Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.
 - Credit history of the non-purchasing spouse should not be the basis for declining the loan. The FICO score for the non-occupying co-borrower is not considered for eligibility or MIP.

	Arizona	California	Washington
When are Community Property State laws applicable?	Married and domicile in same state	Same	Same
Include debts in DTI analysis (ratios)?	Yes, exclusions apply (see below)	Yes	Yes, exclusions apply (see below), as long as proceeds are not provided to non-purchasing spouse or joint assets of the spouse and non purchasing spouse are used in the transaction.
Exclude Debts in DTI analysis if acquired prior to the marriage?	Yes	No. Can only be excluded with a specific Pre-marital agreement	Yes, As long as proceeds are not provided to non-purchasing spouse or joint assets of the spouse and non-purchasing spouse are used in the transaction.
The non-purchasing spouse can sign the mortgage (VA ONLY)?	No	Yes	No

Additional State Specific Restrictions:

Arizona

The satisfaction of collections and judgments of non-purchasing spouses for FHA loans in AZ will no longer be required under the following circumstances:

- The non-purchasing spouse is not contributing towards any of the down payment or costs on the transaction (including gifts or monies from joint accounts)
- The non-purchasing spouse signs the title disclaimer in order to prevent any judgments from attaching to the property. (Condition at closing).
- The non-purchasing spouse cannot sign the Deed of Trust/Security Instrument.

California

- All delinquent debts, including those of the non-purchasing spouse, must be satisfied prior to or at closing.

Washington

- Debts of the non-purchasing spouse are excluded from the qualifying ratios if the non-purchasing spouse receives no money from the transaction.
- When no funds are received from the transaction, the non-purchasing spouse may Quit Claim his/her interest to the purchasing spouse.

FHA UNDERWRITING GUIDELINES

COMPENSATING FACTORS

Documentation

Compensating factors must be noted in the “Underwriter Comments” section by Underwriters on HUD-92900LT. Any compensating factors used to justify mortgage approval must be supported by documentation.

Compensating Factor	Guideline Description
Housing Expense Payments	The borrower has successfully demonstrated the ability to pay housing expenses greater than or equal to the proposed monthly housing expenses for the new mortgage over the past 12-24 months.
Down Payment	The borrower makes a large down payment of 10 percent or higher toward the purchase of the property.
Accumulated Savings	The borrower has demonstrated an ability to accumulate savings, and a conservative attitude toward using credit.
Previous Credit history	A borrower’s previous credit history shows that he/she has the ability to devote a greater portion of income to housing expenses.
Compensation or income Not Reflected in Effective Income	The borrower receives documented compensation or income that is not reflected in effective income, but directly affects his/her ability to pay the mortgage. This type of income includes food stamps, and similar public benefits.
Minimal Housing Expense Increase	There is only a minimal increase in the borrower’s housing experience
Substantial Non-Taxable Income	The borrower has substantial non-taxable income. Note: This applies if no adjustment was previously made when computing ratios.
Potential for Increased Earnings	The borrower has a potential for increased earnings, as indicated by job training or education in his/her profession.
Primary Wage-Earner Relocation	The home is being purchased because the primary wage-earner is relocating, and the secondary wage-earner has an established employment history is expected to return to work, and has reasonable prospects for securing employment in a similar occupation in the new area. Note: The underwriter must document the availability of the potential employment.

FHA UNDERWRITING GUIDELINES

CONVERSION OF PRIMARY RESIDENCE



Rental income from a borrower's principal residence that is being vacated in favor of another principal residence cannot be used unless it meets the requirements below (This applies solely to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E form IRS 1040).

- Rental income on the property being vacated, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see <http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm>) may be considered in the underwriting analysis under the following circumstances:
 - **Relocations:** The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonably and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lease) of at least one year's duration after the loan is closed is required. FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.
 - **Sufficient Equity in Vacated Property:** The homeowner has a loan-to-value ratio of 75 percent or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.
 - **Borrowers with Negative Equity in Vacating Property:** Borrowers that are in a negative equity position will allowed on a case by case basis as an exception. Borrowers must establish a willingness and capacity to maintain the vacating residence. Examples include:
 - Vacating Property has minor negative cashflow based on market rents.
 - Borrowers have sufficient disposable income to cover negative rents
 - Borrower have no derogatory credit

CREDIT



Bankruptcy

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

Note: Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within 24 months of loan application date require compliance with the instructions regarding bankruptcies described in HUD Handbook 4155.1.

FHA UNDERWRITING GUIDELINES

- High Balance Cash-Out transactions
 - Bankruptcy is not allowed with the most recent 7 years.

Compensation Factors

Compensating factors must be noted in the “Underwriter Comments” section by Underwriter on HUD-92900LT. Any compensating factor used to justify mortgage approval must be supported by documentation. Refer to “Compensating Factors” section for further information.

Consumer Credit Counseling

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

Credit Score Guidance

The following criteria may be used to determine each individual borrower’s Credit Score using the “middle/lower” method.

- If there are three valid credit scores for a borrower, the middle score (numerical middle of the three scores) is used.
- If there are three valid scores for a borrower but two of the score are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is used.
- If there is one valid score for a borrower, that score is used.

Credit Score Requirements

- A minimum credit score of 640 is required for all borrowers regardless of any AUS approval
- High Balance Cash-Out transactions require a minimum 660 credit score
- Borrowers with no credit scores are ineligible
 - Exception is available for an occupying co-borrower with no score due to no credit. Must have AUS approval.
 - Exception Pricing Applies: Contact Lockdesk
- A full tri-merge credit report is required for all transactions
- Credit scores must be obtained from major repositories, such as Equifax, Experian, and TransUnion.
- Minimum of three trade-lines with a 12 month rating required:
 - **Primary Borrowers:** Primary Borrowers who do not meet the above trade-line requirement but receive an AUS approval are allowed to use alternative tradelines to supplement.
 - Alternative tradelines may not be used to offset derogatory tradelines.
 - **Occupying Co-borrower:** Occupying Co-borrowers not meeting the tradeline requirements are allowed without developing alternative tradelines if the Primary borrower meets the tradeline requirements and loan receives an AUS approval.
- The middle score of the lowest scoring borrower should be used to determine eligibility. (See Credit Score Guidance section).
- Non-traditional credit reports are ineligible

Disputed Tradelines

If a credit report on an FHA loan has disputed accounts reporting:

FHA UNDERWRITING GUIDELINES

- The borrower may lift the disputed account status. Once removed, obtained a new credit report showing no disputed accounts and run the loan through DU. AUS approval would be valid after this actions is taken.
- OR
- The loan may be manually underwritten.

If the credit report reveals that the borrower is disputing any credit accounts, Manual Downgrade of a TOTAL Scorecard Approve/Accept recommendation is not required if **ONE** of the following criteria is met:

1. The disputed account has a zero balance and 0 X 30 payment history
2. The disputed account is marked as “paid in full”, or “resolved”
3. The disputed account is both
 - a. less than \$500, and
 - b. more than 24 months old, based on the date of dispute

Foreclosure

- A borrower whose previous residence or other real property was foreclosed on or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible.
- If the foreclosure was greater than three years prior to the date of the application, and the risk decision received is an Accept, the loan does not need manual downgrading and foreclosure documentation is not required.
- High Balance Cash-Out transactions
 - Foreclosure is not allowed within the most recent 7 years
- Refer to HUD Handbook 4155.1 for underwriting requirements.

Housing Payment History

- **Purchase: Evaluated by AUS**
- **Refinance: Refer to “Refinance or Streamline” section**

Late Payments, Collection Accounts, and Delinquent Credit Items

- These adverse items include
 - Collection, tax lien, charge-off, or judgment
 - Any mortgage trade lien, including mortgage line-of-credit payments, during the most recent 12 months consisting of more than one 30-day late
- Collections and Judgments
 - Collection accounts are not automatically required to be paid off as a condition for loan approval; however, court-ordered judgments must be paid-off before the mortgage loan is eligible for insurance endorsement.
 - An exception can be considered if:
 - Borrower has been making regular and timely payments on the judgment
AND
 - Creditor is willing to subordinate that judgment to the insured mortgage
AND
 - Compensating factors be identified with second underwriting signature required
 - Both collections and judgments indicate the borrower’s regard for credit obligations and must be considered in the analysis of creditworthiness. The borrower must explain in writing all collections and judgments.
 - Collection or charged-off account may not have to be paid off at or prior to closing unless:

FHA UNDERWRITING GUIDELINES

- Primary Residence: Follow AUS finding unless total balance of all accounts is >\$5,000, which must be paid.
- Delinquent Accounts
 - When delinquent accounts are revealed, the underwriter must determine whether:
 - The late payments were due to disregard for, or an inability to manage, financial obligations
 - OR
 - To factors beyond the control of the borrower, including delayed mail or disputes with creditors.
- Minor Derogatory Information
 - Minor derogatory information occurring two or more years in the past does not require explanation.
- Major Derogatory Information
 - The following items require a detailed written explanation from the borrower:
 - Major indications of derogatory credit, including judgments and collections
 - Any other recent credit problems
 - The borrower's explanation must be reasonable and be consistent with other credit information in the loan file

Recent and/or Undisclosed Debts

- The underwriter must determine the purpose of any recent debts as the indebtedness may have been incurred to obtain part of the required cash investment on the property being purchased. Similarly, a satisfactory explanation must be provided by the borrower to account for the omission of any significant debt show on the credit report, but not listed on the loan application. The borrower must explain all inquiries shown on the credit report in the last 90 days.

Reviewing the Borrower's Credit History

- When reviewing the borrower's credit history and credit report attention must be paid to establish the borrowers capacity and willingness to repay.

Short Sale

- A borrower whose previous residence or other real property was sold as a short sale within the previous three years is generally not eligible
 - Note:** In the event of a legitimate transfer situation (such as a company-initiated relocation) AND the borrower was not currently delinquent on the loan AND there was no deficiency balance on the short sale) an exception may be considered.

DOCUMENTATION & FORMS



URLA (Uniform Residential Loan Application)
 HUD-92900-LT Loan Transmittal
 HUD-92900-A Loan Application Addendum
 Important Notice to HomeBuyer
 Social Security Number Evidence
 ARM Disclosure
 Assumption Notification

FHA UNDERWRITING GUIDELINES

FHA Purchase Contract Addendum & Certification

Copy should be legible, fully executed & include all addendums

Informed Consumer Choice Disclosure

HUD-925564-CN For Your Protection: Get a Home Inspection

Bay Equity requires proof that borrowers have received this disclosure. Obtain borrower's signature as proof of receipt.

Real Estate Certification (of Sales Contract Authenticity)

Amendatory Clause & Real Estate Certification

Must be signed by all parties

Note: If the language is contained with the Sales Agreement, a separate closure is not required

Note: Ensure that the appraised value section in the Amendatory Language is complete

Clear CAIVRS

LDP/GSA

Buydown Agreement (if applicable)

HUD-9887 Consent Form (Notice & Consent for Release of Information)

HU-92800.5B Conditional Commitment (Bay Equity Underwriter to complete, sign and date)

Net Tangible Benefit Form for Streamline Refinances (Bay Equity Underwriter to complete, sign, and date)

HUD-92561 Borrower's Contract with Respect to Hotel and Transient Use of Property (2, 3 or 4 unit properties only)

GENERAL REQUIREMENTS



- All loans must conform to current maximum county loan limits (including Streamline Refinances)
- LDP/GSAs required to be run on all parties involved in the transaction
- Must obtain case number assignment and clean CAIVRS
- Appraiser must be assigned to specific case number

GEOGRAPHIC RESTRICTIONS



Refer to your local HOC office for geographic restrictions

HIGH BALANCE LOAN REQUIREMENTS



Other than FHA High Balance guideline overlays listed below, all FHA High Balance loans must meet standard Bay Equity FHA guidelines

- **Appraisal Requirements:**
 - Refer to the "Appraisal Requirements > High Balance Loan Appraisal Requirements" section of the FHA Guidelines
- **Credit**
 - High Balance Cash-Out transactions: Foreclosure or Bankruptcy is not allowed within the most recent 7 years.
- **Credit Score**
 - FHA High Balance Cash-Out transactions require a minimum 660 credit score
 - All other standard credit score requirements apply.
- **Maximum/Minimum Loan Amounts**
 - Refer to the Maximum/Minimum Loan Amounts" section of the FHA Guidelines

FHA UNDERWRITING GUIDELINES

INCOME & EMPLOYMENT



The following documentation requirements apply:

- A signed and dated IRS Form 4506-T completed at application and closing, is required for all borrowers. Both 4506-T forms must be provided in the loan file delivered for purchase and must include authorization for transcripts for the most recent two years.
- All individuals and business tax returns provided in the loan file must be signed by all applicant borrowers. This requirement applies to all employment types even when an IRS form 4506-T is provided.

Eligible Sources of Income

- Wage Earner
- Self Employed
- Other Non-employed
- Non-taxable

Wage Earner

- Salaried and hourly wages
 - W2s or VOEs covering the most recent two-year history and most recent paystubs covering at least 30 days (reflecting the borrower's name, Social Security number and year-to-date gross earnings)
- Overtime and bonus
 - Both overtime and bonus income may be used to qualify if such income has been received for the past two years and it is expected to continue
 - An average of bonus or overtime income for the past two years must be developed, and the employment verification must indicate that such income is likely to continue
 - Less than two years (but not less than 1 year) may be acceptable if the underwriter justifies and documents the reason for using the income. In addition, an earnings trend must be established
- Part-time income
 - Part-time (second job) income may be used if the borrower has worked the part-time job uninterrupted for the past two years and will continue to do so
 - Income that has been received for less than two years (but not less than 1 year) may be included provided it can be determined that its continuance is likely
 - Income from part-time positions not meeting these requirements should be considered as compensating factors but cannot be used as qualifying income
- Seasonal part-time income
 - Seasonal part-time employment (i.e., umpiring baseball games in summer; working at a department store during the Christmas shopping season) is considered uninterrupted and may be used in qualifying if the borrower has worked the same type of job for the past two years and expects to be rehired during the next season.
- Commission income
 - Commission income must be averaged over the previous two years, based upon signed tax returns and a recent paystub
 - Unreimbursed business expenses must be subtracted from gross income
 - Individuals whose commission income shows a decrease from one year to the next require significant compensating factors to allow for loan approval
 - Borrowers with commission income received between one and two years may be considered favorably provided the underwriter is able to make a sound rationalization for acceptance and can document the likelihood of continuance
 - If it is sufficient, base salary without commission may be used to qualify
 - Commissions earned less than one year are not considered effective income
 - Exceptions may be made in those situations where the borrower's compensation was changed from a salary to commission within a similar position with the same employer

FHA UNDERWRITING GUIDELINES

Self-Employed

A borrower with a 25% or greater ownership interest in a business is considered self-employed and additional documentation is required. 2 years tax returns and corporate or Partnership returns required. (1040, 1120, 1065).

Other Non-employed

- Examples of sources of non-employed income
 - Alimony, Child Support, or Maintenance
 - Disability Income
 - Interest & Dividends
 - Military Income
 - Notes Receivable
 - Rental Income
 - Retirement Income
 - Social Security
 - Trust Income

Non-Taxable Income

- Examples of sources of income not subject to federal taxes
 - Disability and public assistance payments
 - Military allowances
 - Child support
- The amount of continuing tax savings attributable to the non-taxable income source may be added to the borrower's gross income
- The adjustments made for any non-taxable income source must be documented and supported
 - Either the published IRS tax tables may be used for calculating the amount that may be "grossed up"
 - OR the tax rate of 25%
- The underwriter is responsible for justifying the amount used and ensuring the income is exempt from federal taxation. Additional documentation may be needed to verify portion of income that is non-taxable and eligible to be grossed up.

LIABILITIES & QUALIFYING RATIOS



Qualifying Ratios

- FHA used Effective Gross Income instead of Net Effective Income to qualify loans. The ratios of 31/43% may be exceeded on Aus-approved transactions. When the 31/43% ratios are exceeded, the FHA Underwriting Transmittal must be used to explain the reason and list the compensating factors.

Payoff Of Debt to Qualify

- The payoff of revolving debt to qualify the borrower is allowed with the following documentation requirements:
 - Credit supplement showing a zero balance and closed account
 - OR
 - Payoff Statement from escrow documenting the payoff and the request for account closure
- Use of gift funds for debt payoff is acceptable

Projected Obligations

- If a debt payment, such as a student loan, is scheduled to begin within twelve months of the mortgage loan closing, the lender must include the anticipated monthly obligation in the underwriting analysis, unless the

FHA UNDERWRITING GUIDELINES

borrower provides written evidence that the debt will be deferred to a period outside the timeframe. Similarly, balloon notes that come due within one year of loan closing must be considered in the underwriting analysis.

LOAN AMOUNTS



STANDARD

Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than "floor" or greater than the "ceiling" as outline in the table below

		Lowest Maximum (Floor)	Highest Maximum (Ceiling)
Continental US	1-Unit	\$271,050	\$417,000
	2-Unit	\$347,000	\$533,850
	3-Unit	\$419,425	\$645,300
	4-Unit	\$521,250	\$801,950

HIGH BALANCE

Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the "floor" or greater than the "ceiling" as outline in the table below.

		Lowest Maximum (Floor)	Highest Maximum (Ceiling)
Continental US	1-Unit	\$417,001	\$729,750
	2-Unit	\$533,851	\$934,200
	3-Unit	\$645,301	\$1,129,250
	4-Unit	\$801,951	\$1,403,400

Refer to the "High Balance" section of the FHA Guideline for additional FHA High Balance guidelines overlays.

Maximum loan limits are determined by geographic areas. A complete schedule of FHA mortgage limits for all areas is available at: <https://entp.hud.gov/html/hicostlook.cfm>

LOAN PROGRAMS



Section 203—Mortgage Insurance for One-to Four-Family Homes

- FHA Section 203(b) insures mortgages for the purchase or refinance of 1-4 unit family homes.

Section 234(c)—Condominium Housing Program

- FHA 234(c) insures mortgages for the purchase or refinance of condominium units in FHA approved condominium projects only.
- Note: Site condominiums do not require FHA approval and must be processed under Section 203(b).

FHA UNDERWRITING GUIDELINES

Section 251—Adjustable-Rate Mortgage (ARM)*

- *3/1 and 5/1 ARMs are eligible. Refer to Loan Terms for specific requirements
- Loan Term: 30-years only.
- Interest-rate adjustment: 1% per year up or down
- Life cap: 5% above initial rate (maximum interest rate to which the loan can adjust over the life of the loan).
- Buydowns: Not allowed.
- Borrower qualification:
 - 3/1 and 5/1 ARMs qualify at the note rate
 - Consideration must be given to future payment increases.

LOAN TERMS



Fixed rate:

- 15 and 30 years

Fixed-period adjustable-interest rates (ARMs): 30-year term only

- 3/1 fixed-period term
 - First adjustment is 36-42 months after the first payment date
 - Adjusts annually with 1% maximum increase or decrease per adjustment
- 5/1 fixed-period term
 - First adjustments is 60-66 months after the first payment date
 - Adjusts annually with 1% maximum increase or decrease per adjustment
- Conversion options:
 - Not Allowed
- Index:
 - Weekly average on U.S. Treasury securities adjusted to a constant maturity of one year
- Margin:
 - 2.00%
- Life cap:
 - 5% above the start rate
- Life Floor:
 - 5% below the start rate, but never lower than the margin
- Payment adjustment date:
 - First adjustment is the first of the month following the interest rate adjustment and every 12 months thereafter

High Balance:

- 30 years
- 5/1 fixed-period term
 - First adjustment is 60-66 months after the first payment date
 - Adjusts annually with 1% maximum increase or decrease per adjustment

LTV/CLTV



FHA UNDERWRITING GUIDELINES

Regardless of the property state or its value:

- The maximum base LTV for a purchase transaction is 96.50% of the lesser of the appraised value or sales price
- The maximum base LTV for Rate/Term refinances is 97.75%
- The maximum base LTV for a Streamline with Appraisal is 97.75%
- There is no maximum base LTV for streamline Refinance without appraisal, except that the maximum insurable mortgage may not exceed the outstanding principal balance minus the applicable refund of the UFMIP plus the new UFMIP that will be charged.
- The maximum base LTV for Cash-Out Refinances is 85%.

Case Number Assigned ON OR AFTER SEPTEMBER 7, 2010:

Type of Transaction	Maximum LTV	Maximum CLTV*
Purchase	96.50%	100%
Rate and Term	97.75%	97.75%
FHA-to-FHA Streamline w/Appraisal	97.75%	125%
FHA-to-FHA Streamline w/o Appraisal	see above	125%
Cash Out Refinance	85%	85%

*Refer to the subordinate financing section for more information

Case Number Assigned BEFORE SEPTEMBER 7, 2010

Type of Transaction	Maximum LTV	Total LTV including UFMIP	Maximum CLTV*
Purchase	96.50%	100.00%	100%
Rate and Term	97.75%	99.50%	100%**
FHA-to-FHA Streamline w/Appraisal	97.75%	99.50%	125%
FHA-to-FHA Streamline w/o Appraisal	see above	see above	125%
Cash Out Refinance	85%	85%	85%**

*Refer to the subordinate financing section for more information

** For Rate/Term transactions with new subordinate financing, the maximum CLTV is 100%.

**For Rate/Term AND CASH-OUT transactions with existing secondary financing, there is no combined loan to value limit provided the

- Lien can be subordinated to the FHA-insured mortgage, and
- Subordinate financing has been paid-as-agreed, and
- Borrower qualifies with the scheduled payments on all liens

MORTGAGE INSURANCE

Cancellation of MIP

- The annual may be canceled by HUD once the unpaid principal balance reaches 78% of the lower of the initial sales price or the appraised value based on the initial amortization schedule.
- FHA's calculation of the 78% threshold is based on the:
 - Loan amount , excluding the UFMIP

FHA UNDERWRITING GUIDELINES

- Initial sales price or original appraised value, whichever is less
- MIP cancellation of a Streamline refinance without an appraisal is determined based on the “original appraised value” provided by HUD
- **Note:** Regardless of the computed loan-to-value ratio, all but 15-year term mortgages will have annual premiums for the greater of five or until the amortized loan-to-value reaches 78%. Refer to the Mortgage Letter 00-46.

Estimating the Monthly MIP

- While any MIP charged on a monthly basis is affected by the interest rate and reduction of the principal balance, an estimate of the monthly MIP may be made as follows:
 - Assuming a monthly MIP factor of 0.5%
 - Multiply the outstanding principal balance of 0.005, then divide by 12, or
- Note: Loan program eligibility is determined using the base loan amount prior to financing UFMIP.

Finance Requirements

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

MIP Amounts

For Case Numbers Assigned on or after 4/5/2010					
<u>Loan Term</u>	<u>LTV</u>	<u>Purchases & Full Credit Qualifying Refinances</u> (Rate/ Term and Cash-out)		<u>Streamline Refinances</u> (With/ Without Appraisal, Credit Qualifying)	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	>95%	2.25%	.55%	2.25%	.55%
	≤ 95%	2.25%	.50%	2.25%	.50%
≤ 15 years	≥ 90%	2.25%	.25%	2.25%	.25%
	≤ 89.99%	2.25%	None	2.25%	None

FHA UNDERWRITING GUIDELINES

For Case Numbers Assigned on or after 10/4/2010					
Loan Term	LTV	Purchases & Full Credit Qualifying Refinances (Rate/ Term and Cash-out)		Streamline Refinances (With/ Without Appraisal, Credit Qualifying)	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	>95%	1.00%	.90%	1.00%	.90%
	≤ 95%	1.00%	.85%	1.00%	.85%
≤ 15 years	≥ 90%	1.00%	.25%	1.00%	.25%
	≤ 89.99%	1.00%	None	1.00%	None

For Case Numbers Assigned on or after 4/18/2011					
Loan Term	LTV	Purchases & Full Credit Qualifying Refinances (Rate/ Term and Cash-out)		Streamline Refinances (With/ Without Appraisal, Credit Qualifying)	
		UFMIP	Monthly	UFMIP	Monthly
>15 years	>95%	1.00%	1.15%	1.00%	1.15%
	≤ 95%	1.00%	1.10%	1.00%	1.10%
≤ 15 years	≥ 90%	1.00%	.50%	1.00%	.50%
	≤ 89.99%	1.00%	.25	1.00%	.25

UFMIP for Refinance Transactions

- The UFMIP for all refinance transactions is based on the loan terms. The amount of unearned premium refunded, if applicable, depends on when the mortgage was closed.
- The following requirements are applicable to Regular and streamline refinances (except those Streamline refinances of mortgages closed before July 1, 1991):
 - Mortgages closed after July 1, 1991 but before January 1, 2001: The seven-year unearned premium refund schedule shown in Mortgagee Letter 94-1 remains in effect.
 - Mortgages closed on or after January 1, 2001, but endorsed before December 8, 2004, that are subsequently refinanced: The five-year refund schedule shown in Mortgage Letter 00-46 applies.
 - Mortgages endorsed on or after December 8, 2004, that are subsequently refinanced: The mortgage will not be eligible for a refund of the UFMIP except when the borrower refinances to another mortgage to be insured by FHA. The three-year refund schedule shown in Mortgagee Letter 05-03 applies.

FHA UNDERWRITING GUIDELINES

- Streamline Refinances of Mortgages:
 - Closed before July 1, 1991: These loans remain exempt from the annual premium and are charged an upfront premium of 1.50%.
 - Case numbers assigned between July 14, 2008 and September 30, 2008:
 - UFMIP: 1.00%
 - Annual MIP: .50%
 - The MIP for the subsequent Streamline refinance is based on the credit score and loan-to-value for the existing mortgage being refinanced.
 - If the Streamline refinance is “credit qualifying” with or without appraisal, the MIP is based on the new credit score and the loan-to-value from the existing mortgage being refinanced.

Refer to HUD Mortgagee Letter 2008-16 for details.

NUMBER OF LOANS/PROPERTIES



Number of Loans per Borrower

- A borrower may not have more than 1 FHA loan at a time.
- Refer to Occupancy section for exceptions

Number of Properties per Borrower

- Maximum number properties that can be financed are limited to 4. This includes joint or total ownership and is cumulative across all borrowers on the loan.

OCCUPANCY



Investment Properties

- Streamline only. 30 Year Fixed only. ARM products not eligible.

Primary Residence

A primary residence is property that will be occupied by the borrower the majority of the calendar year and meets the following criteria:

- At least one borrower must occupy the property and sign the Note and security instrument for the property to be considered owner-occupied.
- The borrower must occupy the property within 60 days after the loan closes with continued occupancy for at least one year.
- 3-4 unit properties require an Occupancy Declaration to be included in the loan life.

Second Homes

- Streamline only. 30 Year Fixed only. ARM products not eligible.

Second Primary Residence

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

- Relocation: If the borrower is relocating and reestablishing residency in another area not within reasonable commuting distance from the current principal residence (generally at least 50 miles away), the borrower may obtain another mortgage using FHA-insured financing and is not required to sell the

FHA UNDERWRITING GUIDELINES

existing property covered by a FHA-insured mortgage. Refer to the local FHA Homeownership Center for detailed information.

- Increase in family size: The borrower may be permitted to obtain another home with a FHA-insured mortgage if the number of legal dependents increases to the point that the present house no longer meets the family's needs. The borrower must also:
 - Provide satisfactory evidence of the increase in dependents and the property's failure to meet the family's needs
 - Pay down the outstanding mortgage balance on the present property to a 75% or less loan to value ratio, exclusive of any financed MIP.
- Vacating a joint owned property: if the borrower is vacating a residence that will remain occupied by a co-borrower, the borrower is permitted to obtain another FHA-insured mortgage. Acceptable situations include instances of divorce after which the vacating ex-spouse will purchase a new home or one of the co-borrower will vacate the existing property.
- Non-occupying co-borrower: A non-occupying co-borrower on an FHA- insured mortgage being purchased as a principal residence by other family members may have a joint interest in that property as well as the principal residence that is covered by an FHA mortgage.

PROPERTY REQUIREMENTS



Eligible

- 1-4 units attached or detached primary residence including condos and PUDs.
- Modular Pre-Cut/Panelized Housing.

Eligible Condos:

- FHA-approved Projects as verified on FHA Connection

Condo Insurance Requirements

- Insurance Policy should be reviewed by the Underwriter as part of the project review. Refer to Condo-PUD Guidelines Matrix for additional information.
- **HO-6 "Walls-In" condominium Insurance:** "Walls In" insurance coverage is required on all FHA condominium loans, where the master of Blanket HOA policy does not provide replacement coverage for any affixed improvement that borrower makes to the unit (cabinets, flooring, countertops, plumbing fixtures, etc).

— HO-6"Walls-In" Insurance Requirements:

- All FHA condominium loans must include an HO-6 insurance policy if the master HOA policy does not provide coverage for the interior of the unit.
- HO-6 insurance must be impounded on all FHA condominium loans (per standard LTV insurance impound requirements of 80% or 90%, depending on state) with applications taken on or after August 9,2010.
- An acceptable Individual Contents and Liability Policy with HO-6 "Walls-In" coverage in an amount that is no less than 20% of the condominium unit's appraisal value and a maximum 5% insurance policy deductible.

— HO-6 Insurance to be include in Monthly Payment Calculation

- Whether the Ho-6 insurance is impounded or not, the payment **must be** included in the monthly housing payment calculation, and subsequently the debt to income ratios.

FHA UNDERWRITING GUIDELINES

Listed Properties

- Rate/Term Refinance: The listing agreement must be canceled at least one day prior to the date the loan application is taken.
- Cash-Out Refinance: Listing agreements on the subject property must canceled six months prior to the loan application date or the loan is subject to a maximum 70% LTV/CLTV

New Construction Checklist (Existing properties < 1 year old, > 90% LTV, 100% complete)

Provide the appraiser:	
• Copy of Builder Certification (HUD-92541) – completed, signed and dated by builder	
• Copy of Purchase Contract	
Required prior to /at loan closing:	
• Builder Certification (HUD-92541) – completed, signed and dated by builder	
• Builder Warranty of Completion of Construction (HUD-92544) 1-Year Builder Warranty-completed signed and dated by builder.	
•	
• Final inspection – (HUD-92051)	
• Local Health Authority, well water analysis or septic report, where available	
• Direct Endorsement Approval for HUD/FHA insured mortgages – Page 3 (HUD-92900A). (Lender must certify the property is 100% complete)	
• Termite Certification- HUD NPCA-99-A, Subterranean Termite Soil Treatment Builder's Guarantee, and if soil treated box is checked on 99-A, need NPCA-99B, New Construction Subterranean Termite Soil Treatment Record. If pressure-Treated wood used, still need NPCA-99-A.	
• For your Protection: Get a Home Inspection (HUD-92564-CN). Note: Applicable only if property was NOT FHA/VA approved prior to construction and does NOT involve a 1-year warranty.	
One of the following documentation methods is required:	
<ul style="list-style-type: none"> • Approved Tem (10) year warranty and a final inspection. <ul style="list-style-type: none"> • Must have the actual warranty or acceptance letter from warranty company; application is not sufficient <p>OR</p>	
<ul style="list-style-type: none"> • If Builder Certification of plans & specs signed: <ul style="list-style-type: none"> • Building Permit (with 3 inspections) –signed and issued prior to start of • Certification of Occupancy (or equivalent) from local authority) – signed and issued after the completion of construction. <ul style="list-style-type: none"> ▪ If county does not issue a separate COO, but issues a Building Permit (with 3 inspections), the following statement must be signed by the Underwriter (include CHUMS #): “ County does not issue a Certification of Occupancy.” ▪ Final Inspection <p>OR</p>	
• Maximum 90% LTV in one of the above cannot be documented	
This does not apply for condos. Condos must have a 10-year warranty or all inspections to be	

FHA UNDERWRITING GUIDELINES

done by FHA.

Resale Less Than or Equal to 90 days

The following requirements apply to all property sellers:

- Transactions with sales price greater than or equal to a 20% increase over the property seller's acquisition cost are ineligible.
- All transactions must be arms-length; no identity of interest between buyer, property seller or third parties.

Time restrictions DO NOT apply to:

- FHA REO properties sold by FHA
- Resales of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency does not include individual real estate agents that advertise themselves as relocation experts and who purchase properties from person who are relocating from the area.
- Sales of properties that are acquired by the seller by inheritance. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
- Sales by other U.S. government agencies of single family properties pursuant to programs operated by these agencies.
- Sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
- Sales of properties by state and federally chartered financial institutions and government sponsored enterprises (e.g. Fannie Mae and Freddie Mac).
- Sales of properties by local and state government agencies.
- Sales of properties with Presidentially-Declared Disaster Areas (upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster).

Exceptions for less than 90 days and Greater than 20% increase (case by case)

- Exception Pricing Applies: Contact Lockdesk
- Second Full FHA Appraisal is required. Must be ordered by Bay Equity and may not be charged to the borrower.
- The appraisal must verify the property seller has completed sufficient legitimate renovation repair and rehabilitation work on the subject property to substantiate the increase in value.
- In case where no such work is performed, the appraiser must provide appropriate explanation of the increase in property value since the prior title transfer.

Resale Greater Than 90 Days

- Loans with resale dates greater than 90 days and up to 180 days may require supplemental documentation, including an additional appraisal as follows:
 - If the resale price is greater than or equal to 100% over the property seller's acquisition price, a second FHA appraisal (from a new appraiser) is required. The second appraisal must be paid for by the lender.

Requirements for 3-4 Units

FHA UNDERWRITING GUIDELINES

- The borrower must have personal reserves equivalent to three months' PITI after closing on purchase transactions. Reserves cannot be derived from a gift.
- Net rental income for three and four unit property is calculated using the following formula:
 - The appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and minus the greater of the
 - Appraiser's estimate for vacancies, or
 - Vacancy factor used by the jurisdictional HOC.
- This net rental income calculation is used to determine the maximum loan amount. Borrowers must still qualify for the mortgage based on
 - Income
 - Credit
 - Cash to close, and
 - Projected rents received from remaining units.
- Projected rent may only be considered as income for qualifying purposes. It cannot be deducted from the monthly mortgage payment.

Unacceptable Properties:

- Properties with > 10 acres
- Condo project with pending litigation
- Condotels
- Cooperatives
- Dome or Geothermal homes
- Houseboats
- Lava Zones 1 & 2 (Hawaii)
- Leasehold condos
- Manufactured housing
- Mobile homes
- Multi-family dwelling (2 units or more) Condos or PUDs
- Multi-family dwelling with more than 4 units
- New or Proposed PUD projects created by conversion
- Properties in less than average condition
- Properties with agricultural use. No working farms, no hobby farms, ranches, orchards and/or commercial operations. No Schedule F income or loss for subject property.
- Properties with items that affect basic habitability and/or health and safety issues.
- Properties without a permanent heating source (Hawaii)
- Properties without a full kitchen (working sink, working stove & cabinets) or full bath facilities are not eligible.
- Properties without full utilities installed to meet all local health and safety standards
- Unimproved land
- Unique properties for which marketability cannot be determined

PROPERTY INSPECTIONS



State and Local Requirements

- Bay Equity will generally rely on the appraiser and Realtor (via the sales contract) for notification or mandatory state or local inspections.

FHA UNDERWRITING GUIDELINES

- Bay Equity is aware of mandatory inspections required in the following areas:
 - Arizona: Septic or other on-site sewage system (purchases only).

Termite, Well and Septic Inspections

- Properties under one year old require mandatory inspection, treatment and testing, even if previously occupied.
- For existing properties over one year old, inspection and/or testing is only required if:
 - The appraisal indicated there may be a problem or that problems are common in the area.
 - Mandated by the state or local jurisdiction (see below)
 - Required by sales contract.
 - A water purification system is present. If the water supply does not test safe without the purification system, then the requirements in ML 92-18 must be met.
- Wells and Other Water Systems: Refer to FHA Single Family Reference Guide Ch 1, Pg 1-21
- Septic Systems: Refer to FHA Single Family Reference Guide Ch 1, Pg 1-20

QUALIFYING PAYMENT



Fixed:

- Borrower qualifies at note rate

ARMs:

- Fixed Period ARMs (3/1 & 5/1):
 - Qualify at the Note Rate

REFINANCE (NON-STREAMLINE)



Cash-Out

- A cash-out is a first lien in which the loan proceeds may include the funds to pay off any existing liens, related prepaid, closing costs, and the disbursement of cash to the borrower.
- FHA will allow a cash-out refinance of up to 85% loan-to-value subject to meeting all of the following eligibility conditions:
 - If the property is an owner-occupied principal residence and owned for:
 - One year or more preceding the date of the loan application: 85% LTV/CLTV based on amount of the appraised value.
 - Less than one year preceding loan application (must be owned 6 months or more): 85% LTV/CLTV based on purchase price
 - All borrower must hold title to the subject property for at least 6 months
 - If subject property is encumbered by a mortgage:
 - The borrower must be current for the month due
 - The borrower must have made all his/her mortgage payments within the month due for the previous 12 months
 - For mortgages with more than 6 months and less than 12 months payment history, the mortgagor must have made all payments when due.
 - Co-borrowers or co-signers added to the Note or currently on the Note must occupy the property securing the new FHA-insured mortgage. Non-occupant co-borrowers or co-signers may not be added to the Note to meet FHA credit underwriting guidelines.

FHA UNDERWRITING GUIDELINES

- Subordinate financing (existing or modified secondary financing) may remain in place, but subordinate to the FHA insured first mortgage, regardless of the total indebtedness or combined loan-to-value ratio, provided the homeowner qualifies for making scheduled payments on all liens.
- Subordinate financing is limited to a maximum 85% CLTV. See “subordinate financing” section for information on Subordinate Financing.
- The amount of the existing first mortgage may not include delinquent interest. Prepaid expenses may include the per-diem interest to the end of the month on the new loan, hazard insurance premium deposits, mortgage insurance premium, and any real estate tax deposits needs to establish the escrow account.
- If the new loan is used to refinance an existing mortgage to buy out an ex-spouses or other co-mortgagor’s equity, the specified equity to be paid is consider property-related indebtedness and is eligible for inclusion in calculating the new mortgage. The divorce decree, settlement agreement, or other equity agreement must be provided to document the equity awarded to the ex-spouse or co-mortgagor.

Debt Consolidation

Cash-out refinances for debt consolidation represent considerable risk, especially if the borrower(s) have not had an attendant increase in income. Such transactions must be carefully evaluated.

Refinance Transactions

- Refinance transactions are characterized as
 - Streamline (see “Streamline Refinance” section)
 - No cash-out (non Streamline), and
 - Cash-out
- All types of refinance transactions, including FHA Streamline refinances are eligible, except for:
 - Fixed-rate refinance loans made to borrowers that were delinquent on their previous mortgage
 - Refinance transactions involving temporary buydowns
 - Cash-out refinances for FHA loans in Texas
- For all refinances, the case binder must include the payoff statements and calculations used for ht FHA Underwriting Transmittal. Also, the refinance cost breakdown form or a similar form that identifies payoff and closing cost used to calculate the loan amount must be submitted.

No Cash-Out

- All proceeds are used to existing liens and cost associated with the transaction. Cash back the borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed \$500.
- This section contains the guidelines for calculating the maximum loan for a regular refinance transaction, with no cash-out.
- The maximum mortgage amount is the lower of the loan-to-value (LTV) or the existing debt calculation described below, and may never exceed the FHA loan limit except by the amount of any new up-front MIP.
- To calculate the LTV ratio applied to the appraised value, multiply the appraised value of the property by the appropriate factor, as show in the list below, for the property’s value and the state where it is located. Any appraisal requirement, including repairs, must be complied with bore the mortgage is eligible for insurance endorsement.

FHA UNDERWRITING GUIDELINES

- Payoff of existing subordinate financing:
 - Equity Lind of Credit: If any portion of the funds an equity line of credit (purchase money or non-purchase money) in excess of \$1,000 was advanced within the past 12 months and was used for pursued other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in a no cash-out refinance. File must contain documentation to support this guideline.
 - Closed End Seconds: Must have 12 month seasoning (unless used for purchase money)

Properties Owned Free and Clear

- Properties owned free and clear must be refinanced as a cash-out refinance transaction

STREAMLINE REFINANCE

Streamline Refinance

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

- A minimum 640 credit score is required.
- The credit report (three-bureau merge or mortgage-only) is only used to validate the credit score and mortgage rating on FHA non-credit qualifying Streamline transactions.
- Cash-back to the borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed \$500.
- Allowed with or without an appraisal
- Must result in an immediate payment reduction to the borrower
- Loans closed prior to July 1, 1991, with or without an appraisal is exempt from annual MIP; however, UFMIP is required.
- Transactions that include a reduction in the mortgage term must be underwritten and closed as a rate-and-term refinance, and not as a Streamline.
- Discount points may not be included in the new Streamline mortgage. If the borrower has agreed to pay discount points, Bay Equity must verify the borrower has the asset to pay them along with any other financing costs that are not included in the new mortgage amount.

Maximum LTV/CLTV

Regardless of the property state or its value:

- The maximum base LTV for a Streamline Refinance with Appraisal is 97.75%
- There is no maximum base LTV for Streamline Refinance without appraisal, except that the maximum insurable mortgage may not exceed the outstanding principal minus the applicable refund of the UFMIP plus the new UFMIP that will be charged.

<u>Type of Transaction</u>	<u>Maximum LTV</u>	<u>Total LTV including UPMIP</u>	<u>Maximum CLTV*</u>
<u>UFMIP</u>			
FHA-to FHA Streamline w/Appraisal	97.75%	99.50%	125%
FHA-to FHA Streamline w/o Appraisal	see above	see above	125%

*See subordinate financing section

Net Tangible Benefit Test

FHA UNDERWRITING GUIDELINES

Effective with all loan submitted after April 14th the following Net Tangible Benefit Test is required. Exceptions to follow previous Net Tangible Benefit Test will be considered on a case by case basis.

From/To	Fixed Rate	One-Year ARM	Fixed-Period ARM
Fixed Rate	Reduction of at least 5% of principal & interest (P&I) and mortgage insurance premium (MIP)	New interest rate at least 2 percentage points below the current interest rate of the fixed rate mortgage.	Reduction of at least 5% of P&I and MIP
One-Year ARM	New interest rate no greater than 2 percentage points above the current interest rate of the ARM	Reduction of at least 5% of P&I and MIP	New interest rate at least 2 percentage points below the current interest rate of the ARM
Fixed-Period ARM (During Fixed Period)	Reduction of at least 5% of P&I and MIP	New interest rate at least 2 percentage points below the current interest rate of the ARM	Reduction of at least 5 percent of P&I and MIP
Fixed-Period ARM (During Adjustable Period)	New interest rate no greater than 2 percentage points above the current interest rate of the Fixed-Period ARM	Reduction of at least 5% of P&I and MIP	New interest rate at least 2 percentage points below the current interest rate of the Fixed-Period ARM

Occupancy

- Streamline Refinances without an appraisal: Investment properties are allowed, fixed rate only, standard loan amounts only.

Outstanding Principal Balance:

- May include interest charged by the servicing lender when the payoff is not received on the first day of the month
- MAY NOT include delinquent interest, late charges, escrow shortages or Mortgage Insurance Premium listed on payoff demand

Documentation Requirements

- Assets: If assets are needed to close, Bay Equity must verify and document those assets.
- Borrower(s): If deleting borrower(s) from previous transactions, remaining borrower(s) must income and credit qualify using standard documentation requirements.
- Credit Score: Available credit scores must be entered into FHA Connection. If more than one credit score is available, all available credit scores must be entered.
- Income and Employment Certification and Verifications: All income to be stated on the 1003 and 92900LT. Bay Equity must include a signed and dated cover letter on letterhead certifying that the borrower is employed and has income at the time of the loan application. Bay Equity to provide verification on self-employment applicant's business.

Income Types Requiring Verification (Acceptable Documentation)

- Alimony/Separate Maintenance
 - Copy of divorce decree/settlement agreement or court payment record
- Annuity
 - Most current institutional statement
- Interest/Dividend Income
 - Document showing ownership of interest bearing account or copy of current statement showing interest income

FHA UNDERWRITING GUIDELINES

- IRA/Keogh
 - Most current bank statement or letter from administrator
- Pension/Retirement
 - Most current bank statement or benefit award letter or most current W-2/1099
- Rental Income
 - Copy of current lease
- Self Employed
 - Pages 1 & 2 of most recent filed taxes
- Social Security Retirement/Survivor's Disability Income
 - Award letter or most current deposit statement
- Trust Income
 - Copy of trust agreement or trustee's statement
- VA Benefits
 - Award letter or most current deposit statement
- Wage Earner
 - Most recent paystub
- Maximum CLTV: If subordinate financing is remaining in place, the maximum CLTV allowed is 125%.
 - For Streamline refinance transactions without an appraisal: the CLTV is based on the original appraised value of the property per the Refinance Authorization.
 - For Streamline refinance transactions with an appraisal: the CLTV is based on the new appraised value.
- Net Tangible Benefit: Bay Equity must determine that there is a net tangible benefit as a result of the Streamline refinance transaction, without an appraisal.
- Payment History: **At the time of loan application**, the borrower must exhibit an acceptable payment history as described below.
 - For mortgages with less than a 12-month payment history: the borrower must have made all mortgage payments within the month due.
 - For mortgages with a 12 month payment history or greater the borrower must have:
 - Had no more than on 30-day late payment in the preceding 12 months and
 - Made all mortgage payments within the month due for the three months prior to the date of the loan application.
 - The borrower must have made all mortgage payments within the month due if the loan closes after the 15th day of the month. (For example: if the loan closes on after October 15, the October mortgage payment must be made prior to the loan closing). If Bay Equity closes the loan on or before the 15th day of the month, the mortgage payment for that month does not have to be made.
- Ratios: Not evaluated although income is listed.
- Seasoning: At the time of loan application, the borrower must have made at least 6 payments on the FHA mortgage being refinanced.

Note: FHA requires 6 full months seasoning, even if 6 payments have been made. FHA Connection will not allow a case number to be assigned until this requirement has been met. If the loan transaction is a streamline, the case number may NOT be ordered as a standard FHA refinances.

- UFMIP Requirements: Refer to UFMIP for Streamline refinances for details.
- Uniform Residential Loan Application (URLA): An abbreviated version of the URLA is not allowable

FHA UNDERWRITING GUIDELINES

- Underwriting: Streamline Refinances are manually underwritten (with exception of credit-qualifying Streamline Refinances, which may be decided through TOTAL)

Streamline Refinance with an Appraisal

- The maximum insurable mortgage is the lower of:
 - Outstanding principal balance minus the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charged on the refinance;
 - OR
 - 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.
- *The outstanding principal balance* may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.*
- Discount points may not be include in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the asset to pay them along with any other financing costs that are not included in the new mortgage amount.

Streamline Refinance without an Appraisal

- At the time the case number is assigned, the “original value” must be obtained from FHA Connections (Refinance Authorization information) for a Streamline insurable mortgage cannot exceed:
 - The outstanding principal balance* minus the applicable refund of the IFMIP,
 - PLUS
 - The new UPMIP that will be charged on the refinance
- *The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month may not include delinquent interest, late charges or escrow shortages.*

SUBORDINATE FINANCING



Subordinate financing is allowed on FHA transactions

- The interest rate on the first mortgage may not exceed the interest rate on the 2nd mortgage.

Charitable Organization/Non-Profit Secondary Financing (including DAPs)

- Bay Equity must approve charitable organization or non-profit agency.
- Seller funded DAPs are not allowed
- Combined Loan-to-Value
 - The combined amount of the first and second mortgages may not exceed 100% of the lesser of the property's value or sale price, plus normal closing costs, prepaid expenses, and discount points.
- Subordination of Federal Tax Liens
 - Federal tax liens may remain unpaid provided any IRS tax lien on the property is subordinated to the FHA-insured mortgage. The creditworthiness of the borrowers must be properly assessed and the course of the tax lien carefully reviewed and considered
- Subordinate Lien
 - If supported by the appraisal, the costs, or a portion of the costs, may be funded through the use of a subordinate lien held on the property. The sum of the new first and second

FHA UNDERWRITING GUIDELINES

liens, excluding the mortgage insurance premium, may not exceed the combined loan-to-value and maximum mortgage limits.

- DAP eligibility
 - The gift to the homebuyer received from the charitable organization must meet the instructions contained in the HUD Handbook.
 - To determine DAP eligibility with HUD, refer to the following Web site: <http://www.hud.gov/offices/hsg/sfh/np/sfhdap01.cfm>
 - to verify the tax-exempt status and to confirm that the organization has not been terminated and is still in good standing, review the Internal Revenue Bulletin (IRB) by going to: the Internal Revenue Service (IRS) Web site at <http://www.irs.gov/businesses/lists/0,,id=98230,00.html>
 - The DAP must be approved by Bay Equity
 - ARMs are not available with a down payment assistance program

Family Member Secondary Financing

- Family members may lend 100% of the borrower's required cash investment (on a secured or unsecured basis), which may be used for:
 - Down payments
 - Closing costs
 - Prepaid expenses
 - Discount points
- Family member defined as apparent, grandparent, or a child, including son, daughter, stepson, stepdaughter, legally adopted child and foster child)
- The family member providing the secondary financing may not borrow funds from a source with an interest in the sale of the property including the seller, builder, loan officer, or real estate agent. In addition, the borrower received the funds from a family member may not be the co obligor on the note used to secure the funds. For example, a son and daughter-in-law may not be on the note for the funds borrowed by the parents that in turn, was lent for the down payment.

Financing from Private Individuals or Other Organizations

- The secondary financing is disclosed at the time of application
- The required minimum cash investment is *not* financed
- The first and second mortgage together do *not* exceed FHA mortgage limits
- The borrower can afford the total amount of the payments
- Any periodic payments are level and monthly
- There is no balloon payment during the first ten years, and
- There is no prepayment penalty.
- The property seller may be considered a 'private individual' and provide secondary financing per Bay Equity's guidelines.

Government Agency Secondary Financing

- Bay Equity must approve Government Agency Secondary Financing
- Federal, state, and local governmental agencies may provide secondary financing for the borrower entire cash investment with the following conditions:
 - The first mortgage combined with the second mortgage, as well as any other mortgages, grants, etc., may not result in cash-back to the borrower.

FHA UNDERWRITING GUIDELINES

- The sum of all financing may not exceed 100% of the cost to acquire the property. Cost to acquire the property is the sales price plus borrower paid closing costs, discount point, repairs and rehabilitatee expenses and prepaid expenses.
- The monthly payment under the first and second mortgage or lien, plus other housing expenses and recurring charges, cannot exceed the borrower's reasonable ability to pay.
- The source, amount, and repayment terms must be disclosed in the mortgage application, and the borrowers must acknowledge that they understand and agree to the terms.

Maximum Assistance Amount

When using interested party contributions, the maximum allowed is 6%.

Maximum Combined Loan-to-Value

- Purchases: The maximum combined loan-to-value may vary depending on the type of subordinate financing.

	Government Agency	Charitable Organizations/Non-Profit	Family Member	Other Organizations/Private Individuals
Maximum combined LTV	100% of the acquisition cost (the cost to acquire may exceed the original value)	100% of the acquisition cost	100% if the lesser of the property value or sales price plus normal closing costs, prepaids and discount points	The applicable LTV for the geographic area

- Rate/Term & Cash-Out:
 - **EXISTING** Secondary Financing
 - Case Numbers assigned on or after September 7, 2010:
 - Rate/Term Refinance transactions: maximum 97.75% CLTV
 - Cash-Out Refinance transactions maximum: 85% CLTV
 - Case Numbers assigned before September 7, 2011:
 - No combined loan-to-value limit provided the:
 - Lien can be subordinated to the FHA-insured mortgage, and
 - Subordinate financing has been paid-as-agreed, and
 - Borrower qualifies with the scheduled payments on all liens
 - **NEW** Subordinate Financing
 - New subordinate financing, for the purpose of this guideline, is define as secondary financing:
 - Originated concurrently or within six months prior to the closing date of the subject FHA refinance transaction
 - AND
 - Not part of the original purchase transaction
 - Case number assigned on or after September 7, 2010:
 - Rate/Term Refinance transactions: maximum 97.75% CLTV

FHA UNDERWRITING GUIDELINES

- Cash-Out Refinance transactions maximum: 85% CLTV
- Case Numbers assigned before September 7, 2010:
 - Rate/Term Refinance transactions: maximum 100% CLTV
 - Cash-Out Refinance transactions maximum: 85% CLTV

UNDERWRITING



“Refer” decisions remain eligible for manual underwriting provided the minimum 640 credit score requirement is met per Bay Equity’s guidelines. Loans that are manually underwritten due to “Refer” AUS decisions require a second Underwriting signature.

As described in the table below, Bay Equity closes loans using the following methods:

UNDERWRITING METHOD	ELIGIBLE	ACCEPTABLE AUS RESULT
Manual	Yes	N/A
DU	Yes	Approve/Eligible
LP	Yes	Accept