U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING
FEDERAL HOUSING COMMISSIONER

Special Attention of:
All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources
for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All FHA-Approved Title I Lenders
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Transmittal: Handbook 4000.1
Issued: August 12, 2026
Effective Date: Multiple; See Below

1. This Transmits:

The incorporation of previously published updates to Handbook 4000.1, FHA Single Family Housing Policy Handbook.

2. Explanation of Materials Transmitted:

This revision to the FHA Single Family Housing Policy Handbook, or Handbook 4000.1 (Handbook), is being published to update existing sections.

Below is a list of content updates being made to the Handbook:

Handbook Section	Handbook Changes	Page Number(s)
Section I – Doing Business with FHA		
I.A.3.c.iv(B)(2)(b) Officer in Charge – Standard	Updated requirements related to FHA Mortgagee approval and quality control, per ML 2026-09.	16
I.A.5.a.iv(D) Principal/Authorized Agent Relationship – Exception	Added exception to align with existing policy for Assumption underwriting in II.A.8.n.v(C).	34
I.A.11 Sale of a Beneficial Interest in a Group of Mortgages	Added requirements for the Sale of a Beneficial Interest in a group of Mortgages as an entirety and submission of a Declaration of Trust, per ML 2026-02.	74–78

Handbook Section	Handbook Changes	Page Number(s)
I.B.1.c.ii(A) Form HUD-92563-A, *Application for Roster Personnel Designation*; I.B.1.c.ii(B) State Certification; I.B.1.d Renewal and Maintenance; I.B.1.e Post-approval Requirements	Updated policies and procedures for FHA Appraiser Roster management, per ML 2025-24.	80–81
I.B.4.b.iii(B)(3)(a) Secondary Financing – Restrictions on Conveyance – Standard	Added reference to Legal Restrictions on Conveyance guidance.	107
Section II – Origination through Post-closing/Endorsement		
II.A.1.a.ii(A)(2) HUD Required Disclosures – Form HUD-92900-B, *Important Notice to Homebuyers*	Removed the requirements for Mortgagees to provide Borrowers with form HUD-92900-B, *Important Notice to Homebuyers*, and to obtain the executed form, per ML 2026-07.	138–139
II.A.1.a.iii(B)(2) Holds Tracking; II.A.8.p.iii(D)(2) Single-Unit Approval Case Number Assignment; II.C.3.b.iv Submission Process	Aligned procedural guidance with recent system updates.	141–142, 507–508, 798
II.A.1.a.iii(B)(6) Ordering Appraisals	Refined requirements for reusing an appraisal.	143
II.A.1.a.iii(B)(10) Ordering an Update to an Appraisal	Refined requirements for ordering an appraisal update.	148
II.A.1.b.iv(A)(1) Property Eligibility and Acceptability Criteria – Special Flood Hazard Areas; II.B.2.b.iii(A)(4) Special Flood Hazard Areas	Refined requirements for properties in Special Flood Hazard Areas (SFHA).	162, 575
II.A.1.b.iv(B)(7)(a) Manufactured Housing – Definition; II.A.8.p.ii(J)(1) Manufactured Housing – Definition; II.B.2.b.iii(B)(7)(a) Manufactured Housing – Definition; II.B.8.c.ii(I)(1) Manufactured Housing – Definition; II.D.5.a Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages – Definitions	Refined definition of Manufactured Housing for consistency throughout Handbook.	172–173, 506, 582, 756, 848–849
II.A.2.a.ii Nationwide Mortgage Limits	Updated the forward mortgage loan limits section to include an evergreen hyperlink in lieu of including loan limits in the handbook annually.	178

Handbook Section	Handbook Changes	Page Number(s)
II.A.3.a.ii(N)(2)(b) Individual Water Supply Systems (Wells) – Required Documentation; II.A.3.a.ii(N)(3)(b) Shared Wells – Required Documentation; II.A.8.i.vii(A)(6)(b) Individual Water Supply Systems (Wells) – Required Documentation; II.B.4.a.ii(B)(15)(b)(ii) Individual Water Supply Systems (Wells) – Required Documentation; II.B.4.a.ii(B)(15)(c)(ii) Shared Wells – Required Documentation; II.B.8.a.vi(E)(1)(f)(ii) Individual Water Supply Systems (Wells) – Required Documentation	Refined language for valid water test for consistency.	189, 192, 472, 601, 604, 729
II.A.4.a.i Use of TOTAL Mortgage Scorecard; II.A.4.e.iii HUD Employee Mortgages (TOTAL); II.A.5 Manual Underwriting of the Borrower; II.A.5.d.x(B) Documentation of Final Underwriting Review Decision; II.A.5.d.x(D) HUD Employee Mortgages; II.A.8.d.vi(C)(4)(d) HUD Employee Mortgage	Removed requirements for HUD Employee Loans to be submitted to FHA for underwriting and endorsement.	200, 278–279, 363–364, 450
II.A.4.c.ii Employment Related Income (TOTAL); II.A.5.b.ii Employment Related Income (Manual); II.B.5.e.ii(A) Employment Income	Added definitions for Written Verification of Employment, Electronic Verification of Employment, and Reverification of Employment.	223–225, 302–304, 637–639
II.A.4.d.iii(J)(1)(b) Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL) – Standard; II.A.5.c.iii(J)(1)(b) Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual) – Standard	Refined language to reflect that the prohibition on secondary financing having a balloon payment within the first 10 years does not apply to the Federal Home Loan Bank (FHLB) Homeownership Set-Aside Programs.	264, 343–344
II.A.4.d.iii(L)(2) Federal Home Loan Bank Homeownership Set-Aside Program (TOTAL); II.A.5.c.iii(L)(2) Federal Home Loan Bank Homeownership Set-Aside Program (Manual)	Refined language to reflect that FHLB Homeownership Set-Aside funds may be provided either as a grant or as secondary financing.	271–272, 351

Handbook Section	Handbook Changes	Page Number(s)
II.A.7.d.iii(B) Assignee Mortgagee; II.B.7.d.iii(B) Assignee Mortgagee	Removed obsolete content to reflect current practices.	385, 718
II.A.7.d.iv Ineligible for Endorsement – Non-lender Insured; II.B.7.d.iv Ineligible for Endorsement	Removed obsolete content to reflect current practices.	385–386, 718
II.A.7.d.vi(A) Severe Case Warnings	Removed obsolete content to reflect current practices.	387
II.A.8.a.vii(B) Limited 203(k) Ineligible Improvements/Repairs; II.A.8.a.xviii(C)(1)(d)(i) Standard 203(k) Release of Funds; II.A.8.a.xviii(C)(1)(d)(ii) Limited 203(k) Release of Funds	Refined the maximum number of allowable draws under the Limited 203(k) program and updated draw disbursement procedures, per ML 2026-06.	400, 419–420
II.A.8.a.xvi Data Delivery/203(k) Calculator	Removed obsolete content to reflect current practices.	414
II.A.8.p.iii(C) Single-Unit Approval – Property Eligibility	Added reference to Legal Restrictions on Conveyance guidance.	507
II.E.4.g.ii(N)(2) Procedures for Endorsement – Assembly of Case Binder – Case Binder Stacking Order	Updated stacking order to be consistent with pre-closing documentation requirements.	1122
Section III – Servicing and Loss Mitigation		
III.A.2.d.ii(A) Application of Partial Payments Totaling a Full Monthly Payment – Standard	Updated to align with waiver, *Handbook 4000.1 Waiver of Date of Default Language in Section III.A.2.d.ii(A) Application of Partial Payments Totaling a Full Monthly Payment under Partial Payments for Mortgages in Default*, issued on 12/11/2025.	1179–1180
III.A.2.h.iii(A)(2) Non-Borrowers Who Acquired Title through an Exempted Transfer	Reorganized bullets to consolidate requirements for a Permanent Retention Option.	1195
III.A.2.i Loss Mitigation Home Retention Options	Removed obsolete content for COVID-19 loss mitigation options.	1202
III.A.2.i.ii(B)(6) Expiration of Forbearance Agreement	Added verbiage for an automatic extension in the event of Forbearance expiration.	1207
III.A.2.i.iii(C)(1) Trial Payment Plans – Definitions; III.A.2.i.iii(C)(2) Trial Payment Plans – Standard; III.A.2.i.iii(C)(5)(A) Trial Payment Plan Failure – Standard	Updated requirements for Trial Payment Plans (TPP), per ML 2026-08.	1210–1213
III.A.2.i.vii(B)(1) Mortgage Status	Refined Mortgage Status to remove maximum arrearage.	1240

Handbook Section	Handbook Changes	Page Number(s)
III.A.2.j.ii(C)(1)(b) Standard PFS – Standard	Updated to align with waiver, *Handbook 4000.1, Section III.A.2.j.ii(C)(1)(b) Standard PFS Standards*, issued on 12/11/2025.	1245
III.A.2.j.ii(E)(1)(c) PFS Request for Damaged Property	Updated to reflect variance requests are submitted in EVARS.	1248
III.A.2.p.i(C) When to Initiate Foreclosure	Updated requirements for reviewing Borrowers for Loss Mitigation Options, per ML 2026-08.	1275
III.A.2.p.i(D)(1)(b) Prohibition of Foreclosure due to State Legislation	Updated to improve readability.	1276
III.A.2.p.i(D)(1)(c) Prohibition of Foreclosure due to Federal Law or Regulations	Added verbiage for an automatic extension.	1277
III.A.2.p.i(D)(1)(d) Prohibition of Foreclosure due to Bankruptcy	Added verbiage for an automatic extension.	1277
III.A.2.p.ii(E)(2) Reasonable Diligence in Completing Foreclosure – Standard	Updated to add that Mortgagees must not file an EVARS request for automatic extensions.	1284
III.A.2.p.iii Foreclosure Sales and Post-Foreclosure Sales Efforts; III.A.4.a.ii(G)(6) Reporting Foreclosure/CWCOT Outcomes	Updated requirements for bidding at a foreclosure sale and for utilizing Claims Without Conveyance of Title (CWCOT), per ML 2026-03.	1289–1295, 1431
III.A.2.q.viii(B) Evictions and Eviction Personnel – Required Documentation	Updated to specify eviction costs be reasonable and customary.	1299
III.A.3.c.iii(A)(1) Title Evidence Package	Updated HUD mailing address to send title evidence package.	1340
III.A.3.f.i(C) Active Duty Military Service	Updated Good Neighbor Next Door Owner-Occupancy policy for military servicemembers on Active Duty.	1347
III.A.3.i.ii HUD Postponement of Principal Payments for Servicemembers	Reinstated section on requirements for postponement of principal payments for Servicemembers that was inadvertently deleted.	1354–1355
III.B.1.r.iii(A) Compliance Package	Updated compliance package list to add most recent LESA analysis and notice to Borrower.	1468
III.B.1.r.v Completing the Assignment Process	Updated to reflect document delivery requirements for assignments.	1470
III.B.1.t.ii(A)(2) Incurable Defects	Added criteria for assignment claims and repurchase.	1473
III.B.2.f.i(F)(2)(b) Mortgages Endorsed after January 23, 2004, that have a Due and Payable Date on or after September 19, 2017, and before September 28, 2024	Reinstated section on Debenture Interest that was inadvertently deleted.	1504

Handbook Section	Handbook Changes	Page Number(s)
III.B.2.f.i(F)(3) Debenture Interest Rate Adjustment	Deleted this section because this has expired as of July 1, 2025.	1504
Section IV – Claims and Disposition		
IV.A.2.a.ii(L)(2) Foreclosure and Acquisition Costs – Standard; IV.A.2.d.ii(F) Foreclosure and Acquisition Costs; IV.A.2.d.iii Submission of Claim Form Parts to HUD for CWCOT	Updated requirements for bidding at a foreclosure sale and for utilizing Claims Without Conveyance of Title (CWCOT), per ML 2026-03.	1584, 1600–1601
IV.A.2.p Claim Type 33 - Payment Supplement; IV.A.2.q Claim Type 33 - Disaster Payment Supplement	Updated requirements to account for delays due to bankruptcy.	1608
IV.B.2.f.vi(B) Extended Listing Period – Standard	Updated to reflect properties will move to extended listing period if no bid is accepted during the exclusive listing period.	1634
IV.B.2.j.ii Repairs Necessary to Comply with Mortgage Lender or State, Tribal, or Local Law Requirements	Updated to reflect repairs may be made by HUD if the request has been approved.	1644
Section V – Quality Control, Oversight, and Compliance		
V.A.2.b.i(A) Training; V.A.2.b.i(A)(2) Access to FHA Guidance; V.A.2.c Identifying Patterns	Removed requirements related to FHA Mortgagee approval and quality control, per ML 2026-09.	1685, 1690
V.A.3.a.iv(B) Sample Composition Standard – Early Payment Defaults	Updated requirements related to FHA Mortgagee approval and quality control, per ML 2026-09.	1696
V.A.3.c.ii(C) Property and Appraisals	Updated FHA quality control requirements to allow greater flexibility and alternatives to appraisal field reviews, per ML 2026-10.	1701
V.E.5.e.i(B)(1) Remedial Education – Standard; V.E.5.e.i(C) Removal	Updated policies and procedures for FHA Appraiser Roster management, per ML 2025-24.	1742–1744
Appendix		
Appendix 3.0 – Post-Endorsement Fees and Charges by Location (Applies to Servicing Only)	Reorganized table so columns are arranged alphabetically by state.	1754–1759
Appendix 6.1 – Automatic Extension to HUD's Initiation of Foreclosure Timeline	Added appendix to include the list of automatic extensions.	1772–1774

Handbook Section	Handbook Changes	Page Number(s)
Throughout Document		
II.A.4 Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL); II.A.5 Manual Underwriting of the Borrower; II.A.8.d Refinances; II.B.5.b.iii(C)(3) Evaluating Credit History – Required Documentation; II.B.5.d.iii(G)(4) Calculation of Monthly Obligation; II.E.2.d.i(D)(6)(d) Calculation of Monthly Obligation; II.E.4.d.i(D)(6)(d) Calculation of Monthly Obligation; III.A.2.i Loss Mitigation Home Retention Options; Appendix 8.0 – FHA Defect Taxonomy	Removed obsolete content for COVID-19.	N/A
	Various technical edits including procedural updates, hyperlinks, punctuation, formatting, grammar, spelling, and capitalization.	Throughout

3. Implementation:

Below is a list of effective dates for the Handbook changes:

Handbook changes identified in Section 2 of this Transmittal incorporated to reflect a Mortgagee Letter	Effective as previously announced in the corresponding Mortgagee Letter.
All other changes	May be implemented immediately, but must be implemented no later than November 10, 2026.

4. Public Feedback:

HUD welcomes feedback from interested parties and will consider the feedback in determining the need for future updates. Any feedback or questions may be directed to the FHA Resource Center at 1-800-CALL FHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs.

5. Superseded Policy:

Previous versions of Handbook 4000.1 are amended as described in this Transmittal. All previously superseded or canceled Mortgagee Letters, Housing Notices, and/or Handbooks remain canceled or superseded, except for items notated by * below. All superseded or canceled policy documents will continue to be available for informational purposes only on HUD's website. Policy documents that have been superseded in full by the Handbook can always be found on HUD's Client Information Policy Systems (HUDCLIPS) web pages, accessible from the Single Family Housing Superseded Policy Documents page at https://www.hud.gov/hudclips/sfhsuperseded.

Mortgagee Letter(s) Superseded in Whole	ML Number
Updates to FHA Quality Control Requirements for Appraisal Field Reviews	2026-10
Eliminating Unnecessary Requirements for FHA Mortgagee Approval and Quality Control	2026-09
Updates to Loss Mitigation Requirements	2026-08
Rescission of the Important Notice to Homebuyers Form HUD-92900-B Requirement	2026-07
Increase in the Maximum Number of Draw Requests for Limited 203(k) Rehabilitation Mortgage Insurance Program	2026-06
Updates to Bidding at Foreclosure and Post-Foreclosure Sales Efforts	2026-03
Requirements for a Mortgagee's Sale of a Beneficial Interest and Declaration of Trust Submission	2026-02
Updates to FHA Appraiser Roster Management	2025-24

Housing Waiver(s) Superseded in Whole	Date Issued
Handbook 4000.1 Waiver of Date of Default Language in Section III.A.2.d.ii(A) Application of Partial Payments Totaling a Full Monthly Payment under Partial Payments for Mortgages in Default	12/11/2025
Handbook 4000.1 Waiver of Requirement on Standard Short Sale in Section III.A.2.j.ii(C)(1)(b) Standard Pre-Foreclosure Sale (PFS) Standards	12/11/2025

6. Paperwork Reduction Act:

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Joseph M. Gormley
Performing the delegable duties of the Assistant Secretary for Housing -
Federal Housing Commissioner

HUD Handbook 4000.1
FHA Single Family Housing Policy Handbook

USER QUICK GUIDE

Below are some helpful tips for using HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1):

1. Handbook 4000.1 is organized in the sequence of a life cycle of a mortgage.
2. Effective dates are shown at the end of heading titles, at the 4th level (e.g., I.A.1.a) in parentheses.
3. Yellow highlighted text indicates the most recent updates to Handbook 4000.1.
4. Capitalization of words in Handbook 4000.1 generally denotes terms that are defined in the Glossary.
5. Hyperlinks are included in Handbook 4000.1 for easy navigation to a referenced section. Hyperlinks are indicated by blue, underlined text. Users can jump to the hyperlinked reference by clicking on the text. To navigate back to the hyperlink last used, click ALT+←.
6. Use Ctrl+F to search on words or phrases.

FHA Single Family Housing Policy Handbook
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I. DOING BUSINESS WITH FHA

A. FHA LENDERS AND MORTGAGEES (09/20/2021)

The Doing Business with FHA section in this *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) covers Federal Housing Administration (FHA) approval and eligibility requirements for both Title I Lenders and Title II Mortgagees, as well as other FHA program participants. The term "Mortgagee" is used throughout for all types of FHA approval (both Title II Mortgagees and Title I Lenders) and the term "Mortgage" is used for all products (both Title II Mortgages and Title I Loans), unless otherwise specified.

A Mortgagee must fully comply with all of the following approval and eligibility requirements in order to be approved by FHA to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I Loans or Title II Mortgages at the time of approval and at all times after approval.

The requirements outlined below in subsections 1 through 9 apply to both Single Family (one- to four-units) and Multifamily Mortgagees. If there are any exceptions or program-specific requirements that differ from those set forth below, the exceptions or alternative program requirements are explicitly stated or hyperlinked to the appropriate guidance. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

1. Types of Program Approvals

FHA approves Mortgagees separately for participation in the Title I and Title II programs. FHA approval is conveyed to a specific legal entity and cannot be shared with or extended to other entities, such as a parent or subsidiary, or any Affiliates of the Mortgagee.

a. Title I (05/09/2022)

i. Definition

A Title I Lender is a Lender that (a) holds a valid Title I Contract of Insurance and is approved by FHA to participate in the Title I program under the National Housing Act (12 U.S.C. § 1703 et seq.), or (b) is under suspension or holds a Title I Contract of Insurance that has been terminated or suspended but remains responsible for servicing or selling the Title I Loans that it holds and is authorized to file insurance claims on such Title I Loans.

Title I Contract of Insurance is the term applied to a Title I Lender's authority to originate, underwrite, and insure Title I Loans. FHA's approval as a Title I Lender constitutes the Title I Contract of Insurance between the Title I Lender and HUD.

ii. Standard

A Title I Lender may be approved to originate, underwrite, close, endorse, service, purchase, hold, or sell Loans under the Property Improvement program and/or the Manufactured Housing program. Unless otherwise specified, Title I Lenders must meet the same approval requirements and follow the same procedures as Title II Mortgagees.

The FHA Lender ID assigned to the Title I Lender by HUD at approval is used to identify the Title I Contract of Insurance in all insurance transactions. The Title I Lender's responsibility under the Title I Contract of Insurance will remain in force for all Title I Loans originated under the Title I Contract of Insurance for the entire term of the Title I Loans.

A lender whose Contract is terminated may continue to be approved as a Title I Lender, and it continues to be insured with respect to the Title I Loans it holds at the time of termination, but it cannot otherwise exercise the rights of an approved lender. The Title I Lender may no longer originate new Title I Loans but will remain responsible to perform all duties for Title I Loans held in accordance with the Title I Lender's Contract of Insurance with HUD. This includes servicing and paying premium charges when due. Claims may be filed for Title I Loans that were insured under the Contract of Insurance.

b. Title II (09/14/2015)

i. Definition

A Title II Mortgagee is a Mortgagee that has been approved to participate in Title II and/or Title XI programs under the National Housing Act (12 U.S.C. § 1707 et seq. and 12 U.S.C. § 1749aaa et seq.).

ii. Standard

A Title II Mortgagee may be approved to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA Single Family insured Mortgages or multifamily Mortgages.

2. Types of Approved Mortgagees

FHA approves Mortgagees as one of the following four types: Supervised, Nonsupervised, Government, or Investing.

a. Supervised Mortgagee (03/14/2016)

i. Definitions

(A) Supervised Mortgagee

A Supervised Mortgagee is a financial institution that is a member of the Federal Reserve System or whose accounts are insured by the Federal Deposit Insurance

Corporation (FDIC) or the National Credit Union Administration (NCUA) (collectively, "Federal Banking Agencies").

(B) Large Supervised Mortgagee

A Large Supervised Mortgagee is a Supervised Mortgagee that has consolidated assets greater than or equal to the threshold for audited financial reporting established by the Federal Banking Agency with oversight of the Mortgagee. Thresholds are codified at 12 CFR §§ 363.1(a), 562.4(b)(2), and 715.4(c), and are subject to change.

(C) Small Supervised Mortgagee

A Small Supervised Mortgagee is a Supervised Mortgagee that has consolidated assets below the threshold for audited financial reporting established by the Federal Banking Agency with oversight of the Mortgagee. Thresholds are codified at 12 CFR §§ 363.1(a), 562.4(b)(2), and 715.4(c), and are subject to change.

ii. Standard

A Supervised Mortgagee must meet the general approval requirements set forth below.

iii. Activities Authorized

A Supervised Mortgagee may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

b. Nonsupervised Mortgagee (03/14/2016)

i. Definition

A Nonsupervised Mortgagee is a lending institution that has as its principal activity the lending or investing of funds in real estate Mortgages, consumer installment notes or similar advances of credit, the purchase of consumer installment contracts, or from a directly related field. A directly related field is something directly related to the lending or investing of funds in real estate Mortgages, not simply actions relating to real estate in general.

ii. Standard

A Nonsupervised Mortgagee must meet the general approval requirements set forth below and:

- meet FHA's principal activity requirement by deriving at least 50 percent of its gross revenue from:
  - its activities in lending or investing of funds in real estate Mortgages;
  - consumer installment notes or similar advances of credit;
  - the purchase of consumer installment contracts; or
  - a directly related field;

- have an acceptable Business Form;
- demonstrate Creditworthiness; and
- have an acceptable Funding Program.

iii. Activities Authorized

A Nonsupervised Mortgagee may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

c. Government Mortgagee (06/20/2024)

i. Definitions

(A) Governmental Institutions

Governmental Institutions refer to federal, state, and municipal governmental agencies and Federal Reserve Banks.

(B) Government-Sponsored Enterprises

Government-Sponsored Enterprises (GSE) refer to Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac), and the Federal National Mortgage Association (FNMA, or Fannie Mae).

ii. Standard

A Government Mortgagee must meet the general approval requirements set forth below.

iii. Activities Authorized

Governmental Institutions may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

GSEs may purchase, service, hold, or sell FHA-insured Mortgages.

d. Investing Mortgagee (06/20/2024)

i. Definition

An Investing Mortgagee is an organization that invests funds under its own control and is not approved as a Supervised Mortgagee, a Nonsupervised Mortgagee, or a Government Mortgagee.

ii. Standard

An Investing Mortgagee must meet the general approval requirements set forth below and:

- have staff capable of managing the Mortgagee's activities relating to its FHA-insured Mortgages;
- have an acceptable Business Form;
- demonstrate Creditworthiness; and
- have an acceptable Funding Program.

iii. Activities Authorized

An Investing Mortgagee may purchase, hold, or sell FHA-insured Mortgages. An Investing Mortgagee may only service FHA-insured Mortgages if it receives prior approval.

iv. Activities Not Authorized

An Investing Mortgagee may not originate, underwrite, or close FHA-insured Mortgages in its own name or submit applications for FHA mortgage insurance.

3. Application and Eligibility Requirements for Approval

a. Title I and Title II Program Applications (09/14/2015)

An applicant for FHA approval may apply for Title I and Title II approval separately or in the same application.

b. Online Application (04/18/2023)

An applicant seeking FHA approval must submit an online application containing all information and documentation required to demonstrate eligibility for approval as provided in this section. Applicants must ensure that all information contained in and documentation submitted with the application is true, complete, and up to date as of the date of submission of the application.

i. Application Information

(A) Standard

The applicant must provide the following information as part of a completed application for FHA approval:

- general information (such as the applicant name, date the applicant was established, Taxpayer Identification Number (TIN), Nationwide Mortgage Licensing System and Registry Unique Identifier (NMLS ID), etc.);
- contact information (the primary contact information for all inquiries related to the application);
- addresses (the geographic and mailing addresses for the applicant's home office);
- Mortgagee type (the type of FHA Mortgagee approval being sought: Supervised, Nonsupervised, Government, or Investing);

- Mortgagee function (the functions being sought: originate/underwrite, service, and/or hold);
- FHA program participation (the FHA program participation being sought: Title I, Title II Single Family, and/or Title II Multifamily);
- Corporate Officers (the names, titles, and Social Security Numbers (SSN) for all Corporate Officers who will be directly involved in managing, overseeing, or conducting FHA business and the designated Officer in Charge); and
- Principal Owners (the names, SSN or TIN, and percent ownership).

(B) Required Documentation

The applicant must submit all of the application information in the online application.

ii. Application Documentation

(A) Standard

The applicant must provide supporting documentation to demonstrate that it is eligible for FHA approval.

(B) Required Documentation

The applicant must submit all eligibility documentation listed in the table below that is required for the type of approval being sought. This documentation must be submitted in the online application.

Documents Required for Application	Supervised Mortgagee	Nonsupervised Mortgagee	Government Mortgagee	Investing Mortgagee	
				Federally Regulated[1]	*Not Federally Regulated*
Business Formation Documents		✓			✓
Commercial Credit Report of Mortgagee		✓			✓
Credit Reports of Principal Owners and Corporate Officers		✓			✓
Resumes of Corporate Officers		✓	✓		✓
Resume of Officer in Charge	✓	✓	✓	✓	✓
State License or Registration	✓	✓		✓	✓

Documents Required for Application	Supervised Mortgagee	Nonsupervised Mortgagee	Government Mortgagee	Investing Mortgagee	
				Federally Regulated[1]	*Not Federally Regulated*
Financial Reports	✓	✓		✓	✓
Funding Program		✓			✓
Fidelity Bond	✓	✓	✓	✓	✓
Errors and Omissions Insurance	✓	✓	✓	✓	✓
Quality Control Plan	✓	✓	✓	✓[2]	✓[2]

[1]Federally regulated refers to an entity that is a member of the Federal Reserve System or whose accounts are insured by the FDIC or the NCUA.
[2]Only applicable to Investing Mortgagees applying for Servicing Authority.

iii. Certification of Compliance

(A) Standard

As part of its application, the applicant, through a Corporate Officer, must complete a series of certification statements that address the applicant's compliance with FHA requirements.

(B) Required Documentation

The certification statements must be completed in the online application by a Corporate Officer of the applicant who has been included in the list of Corporate Officers in the online application.

(C) Unable to Certify

If an applicant is unable to certify to any of the certification statements, the applicant must submit a detailed explanation in the online application for each certification that it is unable to complete. The document must:

- explain in detail the reason(s) why the applicant is unable to certify;
- be on the applicant's letterhead;
- be dated;
- be signed by the Corporate Officer who signs the application; and
- contain language certifying that, if approved, the applicant will comply with all FHA requirements.

(D) FHA Review

FHA will review the applicant's explanation for being unable to certify and communicate to the applicant any additional information or documentation needed to render a final decision regarding the applicant's ability to complete the application process.

iv. Application Fee

(A) Standard

The applicant must pay a non-refundable application fee when submitting an application for approval. Applicants applying for both Title I and Title II approval, whether simultaneously or separately, will only be assessed a single application fee.

(B) Exception

Applicants applying for approval as Government Mortgagees or applicants organized as nonprofits are not required to pay an application fee.

(C) Required Documentation

The application fee must be submitted as part of the online application.

c. Eligibility Requirements (06/23/2026)

i. Business Form

(A) Standard

A Nonsupervised or Investing Mortgagee must be organized in one of the following acceptable business forms. A sole proprietorship is not an acceptable business form.

(1) Corporation

(a) Definition

A Corporation is an entity chartered in the United States or its territories.

(b) Standard

The corporation must be organized in accordance with federal and state laws regarding corporations and must provide for permanent succession.

(c) Required Documentation

The corporation must submit copies of its articles of incorporation and bylaws with its application.

(2) Limited Liability Company

(a) Definition

A Limited Liability Company (LLC) is organized under applicable state law which creates a legal entity with a combination of the legal and tax attributes of corporations and partnerships.

(b) Standard

The LLC must:

- consist of two or more members, unless its single member is a corporation or LLC consisting of two or more persons or members;
- ensure each natural person is of legal age as recognized by the state of incorporation at the time such natural person becomes a member;
- have a minimum term of existence of 10 years from the date of application; and
- provide for succession and continuance in the event of the withdrawal or death of a member.

(c) Required Documentation

The LLC must submit its Articles of Organization and operating agreement with its application. The Articles of Organization and operating agreement must contain language addressing the requirements listed in the FHA LLC Standard section above.

The application must include the names and TINs of all members.

(3) Series Limited Liability Company

(a) Definition

A Series LLC is a specific type of LLC that is composed of separate membership interests, which are divided into individual series.

(b) Standard

The Series LLC must comply with all requirements for approval of an LLC. The Series LLC must be organized in accordance with state law that does not conflict with FHA requirements.

The Series LLC's operating agreement must stipulate that:

- no series may participate in FHA programs unless the approved Mortgagee owns 100 percent of the membership interests in that series; and

- the approved Mortgagee remains fully liable for the debts, liabilities, obligations and expenses of any and all series that participate in FHA programs.

(c) Required Documentation

The Series LLC must submit its Articles of Organization and operating agreement with its application.

The application must include the names and TINs of all series participating in FHA programs and of all members in the series participating in FHA programs.

(4) Partnership

(a) Definition

A Partnership is a for-profit business operation between two or more entities that share ownership and management responsibilities.

(b) Standard

The partnership must:

- be organized in accordance with relevant state law;
- have a term of existence that continues for a minimum term of 10 years from the date of application; and
- be structured to continue to exist even if a partner withdraws.

Each general partner must be a corporation or other chartered institution consisting of two or more individuals.

The partnership must designate a managing general partner, who:

- has as its principal activity the management of one or more partnerships, all of which are Mortgagees, lenders, or property improvement or Manufactured Housing loan lenders; and
- has exclusive authority to deal directly with the Secretary or its designee on behalf of each partnership.

(c) Required Documentation

The partnership must submit its partnership agreement. The partnership agreement must contain language addressing the requirements listed in the FHA Partnership Standard section above.

The partnership must submit the names and TINs of all general partners as well as the names and SSNs of all officers and directors of the managing general partner.

(5) Nonprofit

(a) Definition

A nonprofit is a charitable organization or corporation, civic league, social welfare organization, or local employee association organized for purposes other than profit.

(b) Standard

The nonprofit must be recognized as exempt from taxation by the Internal Revenue Service (IRS) under Internal Revenue Code (IRC) Section 501(a) as an entity described in Sections 501(c)(3) and (4).

A nonprofit organized as a Corporation, LLC, or Partnership must also comply with all requirements for the applicable business form.

(c) Required Documentation

The nonprofit must provide a copy of its IRS exemption letter. The nonprofit must submit all Business Formation Documents required of its business form.

(B) Required Documentation

The Mortgagee must submit its Business Formation Documents in the online application.

ii. Mortgagee Name

(A) Definitions

(1) Institution Name

The Mortgagee's Institution Name is the legally registered corporate name associated with the Mortgagee's home office.

(2) "Doing Business As" Name

The "Doing Business As" (DBA) name is any registered name or alias that the Mortgagee has a legal right to use.

(B) Standard

The Mortgagee must use as its institution or DBA name the name shown on its Business Formation Documents or for which it has received approval from its state of formation. The Mortgagee is prohibited from using any restricted word in, or as part of, its institution or DBA name in a manner that would violate the Helping Families Save Their Homes Act of 2009 (Pub.L. 111–22) or 18 U.S.C. § 709, which places

restrictions on "federal," "government," or "national" and related words, unless the Mortgagee is exempt from these statutory prohibitions.

The Mortgagee's institution name and all DBA names used by a Mortgagee for conducting FHA business must be registered with FHA. The Mortgagee must use only those names that are registered with FHA in Advertising and promotional materials related to FHA programs.

(C) Required Documentation

A Nonsupervised or Investing Mortgagee must submit its Business Formation Documents. A Supervised Mortgagee must submit a copy of the state license or registration for its home office as verification of its institution name.

The Mortgagee must submit documentation from the state showing it is legally approved to use its institution name or DBA name, if the name differs from that shown on its Business Formation Documents.

iii. Office Facilities

(A) Definitions

(1) Home Office

The Mortgagee's Home Office is the main office from which it manages its FHA business.

(2) Branch Offices

Branch Offices are all other offices from which a Mortgagee will conduct its FHA business.

(B) Standard

(1) Home Office

A Mortgagee must designate a headquarters or "home office" for its FHA business. A Mortgagee's home office does not have to be its corporate office.

The Mortgagee's home office must have a staff of at least two full-time employees. The Mortgagee may not rely on a shared receptionist to satisfy this full-time employee requirement.

A Mortgagee's home office facility must:

- be located in a commercial space that is separate from any other entity (except for reception-type entrances or lobbies);

- be clearly identified, including having a permanently affixed business sign and other means of identification commonly used by businesses, so that the general public and other businesses will know, at all times, exactly which entity is being represented and is conducting business; and
- display a fair housing poster if the Mortgagee deals with Borrowers and the general public.

Exception for Investing Mortgagee without Servicing Authority

In lieu of the staffing and facilities requirements, an Investing Mortgagee shall have officers or employees who are capable of managing its activities in purchasing, holding, and selling Title I Loans or Title II Mortgages.

(2) Branch Offices

Mortgagees may register any branch offices that will conduct FHA business in accordance with the requirements set forth in the branch office requirements. This includes any branches that will originate, underwrite, and/or service FHA-insured Mortgages.

The Mortgagee must ensure each registered branch office has at least one full-time employee. The Mortgagee may not rely on a shared receptionist or contractors to satisfy this full-time employee requirement.

The Mortgagee must display a fair housing poster in branch offices that deal with Borrowers and the general public.

(C) Required Documentation

FHA will verify compliance with the office facilities requirements through any onsite visits. The Mortgagee must maintain an up-to-date list of all offices meeting the standard.

iv. Ownership and Personnel

The Mortgagee must comply with the following requirements for its ownership and personnel.

(A) Principal Owners

(1) Definition

A Principal Owner is any individual or entity meeting the following thresholds or roles for the applicable business form:

Business Form	Principal Owners
Publicly Traded Corporation	10% or more ownership

Business Form	Principal Owners
Private or Close Corporation	25% or more ownership
Limited Liability Company	All Members
Partnerships	All Partners

(2) Standard

The Mortgagee must ensure that none of its Principal Owners are suspended, debarred, or otherwise excluded from participation in FHA programs. See Restricted Participation.

(3) Required Documentation

A Supervised, Nonsupervised, or Investing Mortgagee must identify all Principal Owners. The Mortgagee must submit this information in the online application.

(B) Personnel Requirements

(1) Corporate Officers

(a) Definitions

(i) Corporate Officers of Nonsupervised and Investing Mortgagees

A Corporate Officer is a natural person who serves as one of the following positions for a Nonsupervised or Investing Mortgagee:

- owner;
- President;
- Vice President in charge of managing or overseeing any aspect of the Mortgagee's FHA business;
- Chief Operating Officer (COO);
- Chief Financial Officer (CFO);
- Director;
- Corporate Secretary;
- Chief Executive Officer (CEO);
- General Counsel;
- Chairman of the Board;
- General Partner; or
- member or manager of an LLC.

(ii) Corporate Officers of Supervised and Government Mortgagees

A Corporate Officer is a natural person who serves as one of the following positions for a Supervised or Government Mortgagee:

- President;

- Vice President in charge of managing or overseeing any aspect of the Mortgagee's FHA business;
- Chief Operating Officer (COO);
- Chief Financial Officer (CFO);
- Director;
- Corporate Secretary;
- Chief Executive Officer (CEO);
- General Counsel;
- Chairman of the Board;
- General Partner; or
- specifically designated staff member(s) of a Government Mortgagee.

(b) Standard

The Mortgagee must ensure that no Corporate Officers are suspended, debarred or otherwise excluded from participation in FHA programs. See Restricted Participation.

The Mortgagee must ensure its Corporate Officers only represent a single Mortgagee, unless the following criteria are met:

- the entities represented have some or all of the same Corporate Officers or Principal Owners; and
- there is a clear and effective separation of the entities, and Borrowers know at all times exactly which entity is being represented and with whom they are conducting business.

(c) Required Documentation

The Mortgagee must identify all Corporate Officers listed above who will be directly involved in managing, overseeing, or conducting FHA business. The Mortgagee must submit all of this information in the online application.

A Nonsupervised, Government, or Investing Mortgagee must submit a current resume covering the most recent seven-year period for each of these Corporate Officers.

(2) Officer in Charge

(a) Definition

The Officer in Charge is the Corporate Officer designated to manage and direct the Mortgagee's FHA operations.

(b) Standard [Text was deleted in this section.]

The Mortgagee must designate as the Officer in Charge a Corporate Officer who is employed by the Mortgagee and has at least three years of experience in the specific Mortgagee functions or activities that the Mortgagee is approved to perform, including:

- originating or servicing Single Family or multifamily Mortgages;
- investing funds in real estate Mortgages; or
- managing other individuals performing these services.

A Corporate Officer's experience in real estate sales or brokerage does not qualify.

(c) Required Documentation

The Mortgagee must designate the Officer in Charge and submit a current resume covering the most recent seven-year period detailing the individual's relevant experience in the online application.

(3) Employees

(a) Definition

Employees are individuals under the direct supervision and control of the Mortgagee.

(b) Standard

***(i)* Eligibility of Employees**

The Mortgagee must not employ any individual who will participate in FHA transactions if the individual is suspended, debarred, under a Limited Denial of Participation (LDP), or otherwise excluded from participation in FHA programs. See Restricted Participation.

***(ii)* Compensation**

The Mortgagee must not compensate employees who perform underwriting or Quality Control (QC) activities on a commission basis.

The Mortgagee must report all employee compensation in accordance with IRS requirements.

(iii) Secure and Fair Enforcement for Mortgage Licensing Act of 2008 Compliance

The Mortgagee must ensure that it and its employees comply with the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) (12 U.S.C. § 1501 et seq.), including the licensing and registration of its employees in the NMLS.

(iv) Conflicts of Interest

The Mortgagee's employees will be subject to FHA's Conflicts of Interest policy.

(v) Underwriters

The Mortgagee must ensure that its underwriters are not managed by and do not report to any individual who performs mortgage origination activities.

The Mortgagee must ensure that its underwriters:

- meet basic eligibility requirements; and
- perform the underwriting function in a manner consistent with FHA guidelines.

(vi) HECM Originators

The Mortgagee and any other party that participates in the origination of a HECM transaction must not participate in, be associated with, or employ any party that participates in or is associated with any other financial or insurance activity, unless the Mortgagee demonstrates that it or any other party maintains firewalls and other safeguards designed to ensure that:

- individuals participating in the origination of the HECM must have no involvement with, or incentive to provide the Borrower with, any other financial or insurance product; and
- the Borrower must not be required, directly or indirectly, as a condition of obtaining a HECM, to purchase any other financial or insurance product.

(c) Required Documentation

The Mortgagee must certify that it meets these requirements in the online application.

v. Creditworthiness

(A) Definitions

(1) Institutional Creditworthiness

A Creditworthy Institution is a Mortgagee with a credit background for the seven-year period preceding the FHA Mortgagee approval application or the lifespan of the institution if less than seven years that:

- reflects no delinquent accounts or collections and no legal actions; or
- reflects legal actions that have been adequately resolved, and/or delinquent accounts or collections that have been adequately resolved or that have an acceptable explanation.

(2) Individual Creditworthiness

A Creditworthy Individual is a person whose credit background for the seven-year period preceding the FHA Mortgagee approval application or for the length of the individual's credit history if less than seven years:

- reflects no delinquent accounts or collections, and reflects no legal actions that would impair the individual's credit, such as a foreclosure action, judgment, lien, or bankruptcy; or
- reflects legal actions that have been adequately resolved, and/or delinquent accounts or collections that have been adequately resolved or that have an acceptable explanation.

(B) Standard

A Nonsupervised or Investing Mortgagee must demonstrate that it is a creditworthy institution, and that its Principal Owners and Corporate Officers are creditworthy individuals.

(C) Required Documentation

A Nonsupervised or Investing Mortgagee must submit the following credit reports.

(1) Report on Mortgagee

A Nonsupervised or Investing Mortgagee must submit a commercial credit report not more than 90 Days old with its application. The Mortgagee must provide written explanations for all negative items disclosed on the credit report.

(2) Reports on Principal Owners and Corporate Officers

A Nonsupervised or Investing Mortgagee must submit a personal credit report for each of its Principal Owners and Corporate Officers with its application. The

personal credit report must be a Residential Mortgage Credit Report (RMCR) or a Tri-Merged Credit Report (TRMCR) not more than 90 Days old.

The Mortgagee must submit a written explanation from the relevant Principal Owner or Corporate Officer for any negative item disclosed on the credit report.

vi. State License or Registration

Supervised, Nonsupervised, and Investing Mortgagees must meet the following licensing requirements.

(A) Business License or Registration

(1) Standard

The Mortgagee must ensure that its home office and each branch office have all licenses, registrations, or approvals required for the types of Mortgagee functions or activities performed by such office for the jurisdiction in which that office is located.

A Mortgagee that has been refused a state license or been Sanctioned by any state in which it will originate FHA Mortgages must disclose the circumstances of the refusal or Sanction and the resolution to FHA.

(2) Required Documentation

The Mortgagee must submit a copy of its state license, registration or equivalent approval for the state in which the home office is located. The Mortgagee, through a Corporate Officer, must certify at application that it has not been refused a license or been sanctioned by any state in which it will originate FHA Mortgages.

If the Mortgagee has been subject to an action against its license, it is Unable to Certify. It must follow the unable to certify procedures and must submit documentation concerning the action that shows the nature of the action and evidence of an acceptable resolution (such as reinstatement or subsequent approval of a license, payment of Sanctions or fines, or similar documentation).

(3) Exception for Mortgagees Exempt from State Licensing Requirements

If the Mortgagee is exempt from state licensing requirements, the Mortgagee must submit documentation of the applicable exemption.

(B) Personnel Licenses

(1) Standard

The Mortgagee must ensure that its Corporate Officers, employees, and Affiliates conducting FHA business for or on behalf of the Mortgagee have all state and

federal licenses and registrations required for the Mortgagee functions or activities that such individuals or Affiliates will perform.

(2) Required Documentation

The Mortgagee must certify that it meets this requirement as part of the online application.

vii. Financial Requirements

(A) Standard

Supervised, Nonsupervised, and Investing Mortgagees must meet the following adjusted net worth and liquidity requirements at all times.

(1) Adjusted Net Worth

The Mortgagee must compute its adjusted net worth in accordance with the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

(a) Single Family Programs

The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus 1 percent of the total volume in excess of $25,000,000 of FHA Single Family Mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of $2,500,000 at all times.

(b) Multifamily Programs

(i) With Servicing

The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus an additional net worth of 1 percent of the total volume in excess of $25,000,000 of FHA multifamily Mortgages originated, purchased, and/or serviced during the prior fiscal year, up to a maximum required net worth of $2,500,000.

(ii) Without Servicing

The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus an additional net worth of one-half of 1 percent of the total volume in excess of $25,000,000 of FHA multifamily Mortgages originated during the prior fiscal year, up to a maximum required net worth of $2,500,000.

(c) Dual Participation

A Mortgagee approved to participate in both Single Family and multifamily programs must have a minimum adjusted net worth of $1,000,000 plus an additional net worth of 1 percent of the total volume in excess of $25,000,000 of the aggregate of FHA Single Family and multifamily Mortgages originated, underwritten, purchased, and/or serviced during the prior fiscal year, up to a maximum required net worth of $2,500,000.

(2) Liquidity

Liquid assets must be computed in accordance with the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

The Mortgagee must hold no less than 20 percent of its required adjusted net worth in liquid assets.

(B) Exception for Government Mortgagees

The adjusted net worth and liquidity requirements do not apply to Government Mortgagees. Government Mortgagees are not required to submit financial information to FHA.

(C) Required Documentation

Supervised, Nonsupervised, and Investing Mortgagees must submit the computation of adjusted net worth, along with the documentation described below.

(1) Small Supervised Mortgagees

A Small Supervised Mortgagee must submit a copy of its Unaudited Regulatory Report (i.e., report of condition and income, also known as the "call report," which is submitted on the Federal Financial Institutions Examination Council Forms 031, *Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices*, and 041, *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only*; or a consolidated or fourth quarter NCUA call report, submitted on NCUA Form 5300 or 5310) signed by a Corporate Officer that aligns with its fiscal year end.

(2) Large Supervised, Nonsupervised, and Investing Mortgagees

(a) Audit of Financial Statements

The Mortgagee must submit financial statements reported in accordance with the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

(b) Accounting and Auditing Standards

The Mortgagee must have prepared its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and had its audit performed in accordance with Generally Accepted Auditing Standards (GAAS).

(c) Audit Period Covered

A Mortgagee's audited financial statements must cover the most recent fiscal year. For companies operating for fewer than 12 months, the audited financial statements must cover all months of operation.

The end date of the audited financial statements must align with the applicant's fiscal year end period at the time of application. If the end date for the audited financial reports is more than six months old, the Mortgagee must also submit unaudited financial statements, signed by a Corporate Officer, for the most recent interim accounting period ending less than three months prior to submission of the application.

viii. Principal Activity of Nonsupervised Mortgagees

(A) Standard

A Nonsupervised Mortgagee must derive at least 50 percent of its gross revenue from its activities in lending or investing of funds in real estate Mortgages, consumer installment notes or similar advances of credit, the purchase of consumer installment contracts, or from a directly related field. A directly related field is something directly related to the lending or investing of funds in real estate Mortgages, not simply actions relating to real estate in general.

(B) Required Documentation

The Nonsupervised Mortgagee must submit audited financial statements that reflect the sources of its revenue.

ix. Funding Program

(A) Nonsupervised Mortgagees

(1) Standard

A Nonsupervised Mortgagee that originates FHA Mortgages must maintain a warehouse line of credit or other mortgage-funding program acceptable to FHA.

Title I Mortgagees must have a minimum $500,000 warehouse line of credit or funding program.

Except for multifamily Mortgagees, Title II Mortgagees must have a minimum $1,000,000 warehouse line of credit or funding program, and must ensure the funding program or warehouse line of credit is sufficient to fund the Mortgagee's average 60-Day origination operations. The Mortgagee's average 60-Day origination operations refer to loans closed and funded, and/or purchased by the Mortgagee during the Mortgagee's highest 60-Day period by mortgage amount over the past 12 months.

(2) Required Documentation

The Mortgagee must submit documentation that it either 1) has a line of credit issued directly to the Mortgagee; or 2) has an agreement with a financial institution. The documentation must ensure the funding program or warehouse line of credit is sufficient to fund the Mortgagee's average 60-Day origination operations.

(B) Investing Mortgagees

(1) Standard

An Investing Mortgagee must have available, or have arranged for, funds or a line of credit sufficient to support a projected investment of at least $1,000,000 in property improvement, Manufactured Housing or real estate loans or Mortgages.

(2) Required Documentation

The Mortgagee must submit documentation that it either 1) has a line of credit issued directly to the Mortgagee; or 2) has an agreement to support the projected investment.

x. Fidelity Bond

(A) Standard

A Mortgagee must have fidelity bond coverage that meets the minimum coverage amount set by FHA. The Mortgagee must ensure that its fidelity bond coverage is in a form generally acceptable to one of the secondary mortgage market agencies, such as Freddie Mac, Fannie Mae, or the Government National Mortgage Association (GNMA, or Ginnie Mae).

A Government Mortgagee will meet this requirement if it maintains alternative insurance coverage that is approved by FHA and that ensures the faithful performance of the Mortgagee's responsibilities.

(B) Required Documentation

The Mortgagee must submit documentation evidencing that it has acceptable fidelity bond coverage.

xi. Errors and Omissions Insurance

(A) Standard

A Mortgagee must have errors and omissions insurance that meets the minimum coverage amount set by FHA. The Mortgagee must have errors and omissions insurance that is generally acceptable to one of the secondary market agencies, such as Freddie Mac, Fannie Mae, or Ginnie Mae.

A Government Mortgagee will meet this requirement if it maintains alternative insurance coverage that is approved by FHA and that ensures the faithful performance of the Mortgagee's responsibilities.

(B) Required Documentation

The Mortgagee must submit documentation evidencing that it has acceptable errors and omissions insurance.

xii. Quality Control Plan

(A) Standard

A Title II Mortgagee and Title I Lender that originates, underwrites, closes, endorses, or services FHA-insured Title II Mortgages or Title I Loans must have a QC Plan that meets FHA's requirements, as described in Quality Control, Oversight, and Compliance. The Title II Mortgagee and Title I Lender must maintain and update their QC Plan as needed to ensure it is fully compliant with all applicable FHA requirements at all times.

(B) Required Documentation

The Mortgagee must submit a copy of its QC Plan.

The Title II Mortgagee and Title I Lender must maintain and update their QC Plan as needed to ensure it is fully compliant with all applicable FHA requirements at all times.

xiii. Unique Entity Identifier

All FHA-approved Mortgagees must register for, obtain, and maintain a Unique Entity Identifier (UEI) number at www.SAM.gov and the registration must result in a status of "Active Registration."

To maintain an "Active Registration" in the SAM.gov database after the initial registration, the applicant is required to review and update its information in the SAM.gov database every 365 days to ensure it is current, accurate, and complete.

The UEI must be entered in the Lender Electronic Assessment Portal (LEAP) Institution Profile to demonstrate compliance. The "Core Data" in www.SAM.gov must match the TIN and institution name in the LEAP Institution Profile for the approved Mortgagee.

d. Processing of Applications (09/14/2015)

FHA will review all completed applications for approval to determine if the applicant complies with all eligibility requirements. If FHA requires additional documentation or clarifying information, FHA may request such additional information and provide the applicant with a deadline for response. If the applicant does not submit a completed application or provide the additional information requested by the specified deadline, FHA may deny approval on this basis.

e. Application Approval (09/14/2015)

If FHA approves the application, FHA will provide notice via email and U.S. mail. This notice will include the Mortgagee's assigned FHA Lender Identification Number (FHA Lender ID), which must be used by the Mortgagee in all FHA computer systems and official correspondence with FHA.

f. Application Denial (03/14/2016)

If FHA denies the application, FHA will provide written notice to the applicant that includes an explanation of the reasons for the denial.

i. Appeal of Denial

The applicant may submit an appeal of the denial decision through the online application within 30 Days of the date of the denial.

If the denial is sustained, the applicant may submit a second appeal through the online application within 30 Days of the date the denial is sustained. If the denial of approval is sustained a second time, the applicant will be ineligible to apply for FHA approval for a period of 12 months.

ii. Reapplication

An applicant whose approval was denied may re-apply after a period of 12 months. The applicant will be required to pay an application fee at the time it submits its subsequent application for approval.

4. Branch Offices

a. Registration (03/19/2024)

The Mortgagee may register all Branch Offices in which it conducts FHA business, including originating, underwriting, and/or servicing FHA-insured Mortgages. The Mortgagee can register each branch office and pay branch office registration fees through LEAP. A 10-digit FHA Lender ID will be assigned to each registered branch office.

The Mortgagee cannot register a new branch office within a HUD Field Office jurisdiction in which it has withdrawn a branch office in the last six months. The Mortgagee must instead make a request through LEAP to reassign the former office's 10-digit FHA Lender ID to the new branch and must pay the branch office registration fee.

b. Single Family Lending Area (03/19/2024)

i. Definition

An "Area Approved for Business" (AAFB) is the geographic area in which a Mortgagee's home or branch office is permitted to originate or underwrite FHA Mortgages. The AAFB is subdivided into HUD Field Office jurisdictions.

HUD Field Office jurisdictions can be verified on www.hud.gov/lenders under the Mortgage Origination tab.

ii. Standard

A Mortgagee's home office and all its registered branch offices will initially be granted a nationwide AAFB. The home office and each branch office may only exercise its authority to originate or underwrite FHA Mortgages in those states where the Mortgagee fully complies with state origination and/or underwriting licensing and approval requirements. A Mortgagee may conduct FHA business from branch offices that are not registered with HUD that fully comply with state origination and/or underwriting licensing and approval requirements.

c. Managers (03/19/2024)

i. Definitions

(A) Branch Manager

A Branch Manager is an onsite manager for a registered branch office who manages one registered branch office.

(B) Regional Manager

A Regional Manager is a manager who oversees the operation of multiple registered branch offices.

ii. Standard

The Mortgagee must have a branch and/or regional manager to oversee each of its registered branch offices.

iii. Required Documentation

The Mortgagee must provide the full names and titles of its branch and regional managers, along with their contact information, for its registered branch offices in LEAP.

d. Net Branching Prohibition (09/14/2015)

i. Standard

The Mortgagee must not engage an existing, legally separate mortgage company or broker to function as the Mortgagee's branch office or DBA name or to conduct FHA activities using the Mortgagee's FHA approval.

ii. Exception for Existing Leases

In cases where a Mortgagee acquires an existing office with the intent of operating it as a branch office, and the lease of the acquired office is not transferable to the Mortgagee, FHA will allow the Mortgagee to operate the acquired office as a branch office until the lease expires upon its own terms, so long as the Mortgagee can demonstrate that it has assumed financial liability for the payment of the lease. In such cases, the Mortgagee must document and maintain evidence that it has assumed financial liability for the payment of the lease and produce this documentation to FHA upon request.

5. Supplemental Mortgagee Authorities

After a Mortgagee is approved, the Mortgagee can apply for additional supplemental Mortgagee authorities in accordance with the following requirements.

a. Title II Direct Endorsement Authority (11/10/2026)

i. Scope of Authority

Approval to participate in FHA's Direct Endorsement Program permits a Mortgagee to underwrite Title II Single Family Mortgages without FHA's prior review and submit them directly for FHA insurance endorsement.

The Mortgagee must obtain separate Direct Endorsement approval for forward mortgage and Home Equity Conversion Mortgage (HECM) programs.

(A) Definitions

(1) Conditional Authority

Conditional Authority is the authority of a Mortgagee that has applied for and received basic FHA Mortgagee approval as a Supervised, Nonsupervised, or Government Mortgagee, and has not entered or completed the Test Case Phase.

(2) Test Case and Test Case Phase

Test Case refers to a Mortgage submitted to HUD by a Mortgagee during the Test Case Phase for Unconditional Direct Endorsement approval. These Mortgages must be processed per the Direct Endorsement eligibility requirements and reviewed by HUD for endorsement approval.

The Test Case Phase is when a Mortgagee with conditional authority is approved by an FHA Homeownership Center (HOC) to submit one or more Test Cases for FHA underwriting review.

(3) Unconditional Direct Endorsement Authority

Unconditional Direct Endorsement Authority permits a Mortgagee to underwrite and close Title II Single Family Mortgages prior to submitting them to FHA for FHA insurance endorsement.

(B) Standard

To obtain Unconditional Direct Endorsement authority, the Mortgagee must successfully complete the Test Case Phase, which permits FHA to evaluate the Mortgagee's qualifications, experience, and expertise to underwrite Mortgages that satisfy FHA requirements.

(C) Exception

Unconditional Direct Endorsement authority may be granted, without the need for the Test Case Phase, to the following categories of Mortgagees created by merger, acquisition, or reorganization:

- surviving FHA-approved Mortgagees; or
- new Mortgagees resulting in new FHA Lender IDs.

ii. Eligibility Requirements

A Mortgagee must meet the following requirements in order to apply for and participate in FHA's Direct Endorsement Program.

(A) Standard

(1) FHA Mortgagee Approval

A Mortgagee must have FHA approval as a Title II Supervised, Nonsupervised, or Government Mortgagee to be eligible to participate in the Direct Endorsement Program.

Mortgagees approved as Investing Mortgagees are not eligible to participate in the Direct Endorsement Program.

(2) Origination Experience

The Mortgagee must have:

- at least five years of experience in the origination of Single Family Mortgages; or
- a Principal Officer with at least five years of managerial experience in the origination of Single Family Mortgages. For the purposes of this Handbook 4000.1 a Principal Officer is the same as a Corporate Officer.

(3) Personnel Requirements

The Mortgagee must have a Direct Endorsement (DE) underwriter on its permanent staff.

(B) Exception for Certain Mortgagees Created by Merger, Acquisition, or Reorganization

Unconditional Direct Endorsement authority may be granted without the need for the Test Case Phase following a merger, acquisition, or reorganization, so long as the following criteria are met:

- Either or both institutions, of the surviving FHA-Approved Mortgagee or the FHA-Approved Mortgagee resulting in a new FHA Lender ID, were unconditionally Direct Endorsement-approved prior to the merger, acquisition, or reorganization.
- If both institutions are unconditionally Direct Endorsement-approved, then the management and staff of at least one of the Mortgagees involved with the Mortgagee's Unconditional Direct Endorsement authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee. If only one institution is unconditionally Direct Endorsement-approved, then the management and staff involved with that Mortgagee's Unconditional Direct Endorsement authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee.
- Both Mortgagees have claim and default rates at or below the 150 percent national compare ratio. If only one institution is unconditionally Direct

Endorsement-approved, then only that Mortgagee's claim and default rate is to be considered.

iii. Application and Approval

(A) First-Time Applicants

(1) Application

(a) Request to Enter into the Test Case Phase

The Mortgagee must submit a written application for Unconditional Direct Endorsement authority to FHA by emailing the required documentation to the FHA Resource Center at answers@hud.gov.

(b) Required Documentation

The Mortgagee's Direct Endorsement application must contain a letter signed by a Corporate Officer requesting entry into the Test Case Phase that contains the Mortgagee's home office 10-digit FHA Lender ID and all underwriters' names and the four-character FHA-assigned identification numbers issued to these underwriters.

(2) Notification and Entrance Conference

If the Mortgagee meets the requirements for conditional authority and submits the required documentation, the Mortgagee will receive a Test Case Phase approval letter from the HOC. The HOC will also provide reference materials and a list of the specific requirements that must be met for the Mortgagee to obtain Unconditional Direct Endorsement authority.

The Mortgagee must participate in an in-person or telephone entrance conference with the HOC before it will be eligible to submit Test Cases.

(3) Test Case Phase

The Mortgagee must submit Test Cases to FHA for review during the Test Case Phase. FHA will review these cases for compliance with FHA's origination, underwriting, and closing requirements.

(a) Case Binder Submission

Mortgagees who receive a Direct Endorsement Program Test Case approval letter from FHA must submit all Test Case binders for review post-closing. The Mortgagee must submit all Test Case files using the FHA Catalyst: Case Binder Module. The Mortgagee must ensure that:

- all required certifications are executed; and

- a complete case file post-closing is submitted that includes all required origination, underwriting, and closing documents as specified in the uniform case binder stacking order.

The HOC will perform a review for compliance with FHA underwriting and closing guidelines. Review results will be documented in accordance with Findings for the Title II Loan Reviews, and Mortgagees must respond to requests using the functions provided in the Loan Review System (LRS).

The HOC will issue either a *Firm Commitment* (approval) or Firm Reject (denial) via a Notice of Return (NOR). Once a *Firm Commitment* is issued, the HOC will process the case for endorsement. If a NOR is issued, the Mortgagee must make all necessary corrections and provide all required documentation to the HOC using the LRS before the Mortgage can be endorsed.

(b) Test Case Underwriting Report

Mortgagees who receive a Direct Endorsement Program Test Case approval letter from FHA must review all Test Case results in the LRS.

(c) Test Case Closing Documents

The Mortgagee must ensure that all required certifications are executed and included with each complete case binder that is submitted to the HOC for endorsement processing.

(4) Approval Decision

(a) Approval of Unconditional Direct Endorsement Authority

After the Mortgagee successfully completes the required Test Cases, FHA will grant the Mortgagee approval for Unconditional Direct Endorsement authority. The Mortgagee must receive a minimum of 15 *Firm Commitments* for forward mortgage authority or five *Firm Commitments* for HECM mortgage authority within a period of 12 consecutive months following the date of the Direct Endorsement Program Test Case approval letter in order to be granted Unconditional Direct Endorsement authority.

The Mortgagee will receive an approval letter and may then begin submitting Mortgages to FHA for endorsement without prior review by FHA.

(b) Denial of Unconditional Direct Endorsement Authority

The Mortgagee will be denied approval for Unconditional Direct Endorsement authority if, at any time during the Test Case Phase, FHA determines that the

Mortgagee's submissions demonstrate a lack of knowledge of FHA requirements, or if FHA identifies unacceptable practices.

(i) Denial Decision

FHA will provide the Mortgagee with written notice of a denial of Unconditional Direct Endorsement authority that specifies the reason for the denial.

(ii) Denial Appeal

The Mortgagee may appeal this denial by requesting an informal conference. The Mortgagee must submit its appeal in writing to the HOC that processed the Test Cases. The HOC must receive the appeal within 30 Days of the date of the notice of denial.

(iii) Informal Conference

FHA will conduct an informal conference with the Mortgagee and its counsel, if any, no later than 60 Days from the date of the denial.

(iv) Determination

FHA will issue a determination in writing following the informal conference stating whether Unconditional Direct Endorsement authority is approved or denied.

(v) Appeal Following Informal Conference

The Mortgagee may appeal a denial following the informal conference by submitting a written request to the Deputy Assistant Secretary (DAS) for Single Family Housing, or their designee, within 30 Days of the date of the denial determination.

The Mortgagee is not entitled to any meeting or informal conference with the DAS or the designee. The Mortgagee will be notified in writing of the decision of the DAS or the designee. The decision of the DAS or the designee constitutes final agency action.

(c) Reapplication Following Denial

Any Mortgagee who is denied Unconditional Direct Endorsement authority will not be permitted to re-apply until it has:

- demonstrated appropriate remedial education or action;
- supplied evidence to support such action; and
- waited a minimum of 180 Days from the date of final agency action.

(B) Applications from Mortgagees Created by Merger, Acquisition, or Reorganization

(1) Standard

The Mortgagee must submit a written application for Unconditional Direct Endorsement authority to the FHA Resource Center at answers@hud.gov.

(2) Required Documentation

The Mortgagee's Direct Endorsement application must contain the following:

- a letter signed by a Corporate Officer requesting Unconditional Direct Endorsement authority that specifies:
  - the FHA-approved and non-approved entities involved in the merger, acquisition, or reorganization;
  - which entity is the surviving entity; and
  - the effective date of the merger, acquisition, or reorganization; and
- supporting documentation evidencing that the Mortgagee meets the exception criteria detailed above.

iv. Principal/Authorized Agent Relationship

(A) Definition

A Principal/Authorized Agent Relationship is one in which a Title II Mortgagee with Unconditional Direct Endorsement authority permits another Unconditional Direct Endorsement-approved Title II Mortgagee to underwrite Mortgages on its behalf.

(B) Standard

A Title II Mortgagee with Unconditional Direct Endorsement authority (acting as the "principal") can designate another Unconditional Direct Endorsement-approved Title II Mortgagee to act as its "authorized agent" for the purpose of underwriting Mortgages.

(1) Required Authorities

The authorized agent must have Unconditional Direct Endorsement authority to underwrite the type of Mortgage that is being underwritten. The Title II Mortgagees must be approved as follows.

For a forward Mortgage:

- the principal may have Unconditional Direct Endorsement authority for either forward Mortgages or HECM; and
- the authorized agent *must* have Unconditional Direct Endorsement authority for forward Mortgages.

For a HECM:

- the principal may have Unconditional Direct Endorsement authority for either forward Mortgages or HECM; and
- the authorized agent *must* have Unconditional Direct Endorsement authority for HECM.

(2) Process

The principal must originate the Mortgage and the authorized agent must underwrite the Mortgage. The Mortgage may close in either Title II Mortgagee's name, and either may submit the Mortgage for endorsement.

(C) Required Documentation

The relationship must be documented in LEAP by the authorized agent, and the principal's FHA Lender ID must be entered in the "Originator" field on the FHA case file and in FHAC.

(D) Exception

For an Assumption Underwriting Review where the holding or servicing Mortgagee does not originate Mortgages or is not approved under the Direct Endorsement Program, the holder or servicing Mortgagee may have an authorized agent perform the review. This relationship does not need to be documented in LEAP.

v. Sponsor/Sponsored Third-Party Originator Relationship

(A) Definition

A Sponsor/Sponsored Third-Party Originator (TPO) Relationship is one in which a Mortgagee (acting as the "sponsor") permits another entity to act as an originator and originate Mortgages on behalf of the Mortgagee.

(B) Standard

Only a Mortgagee with Direct Endorsement authority may use sponsored TPOs.

A Mortgagee must ensure its sponsored TPO meets all state license, registration, or equivalent approval requirements.

A Mortgagee is responsible for the actions of its sponsored TPOs under 24 CFR § 202.8(a)(3).

A Mortgagee must ensure its sponsored TPO and the TPO's officers, partners, directors, principals, managers, supervisors, loan processors, and loan originators are not ineligible under 24 CFR § 202.5(j).

A sponsored TPO is authorized to originate Mortgages for sale or transfer to a Mortgagee with Direct Endorsement authority. A Mortgagee must ensure its sponsored TPO does not close Mortgages in their own name.

(1) Exception for Mortgagees Acting as a Sponsored Third-Party Originator

A Mortgagee may permit its sponsored TPO to close Mortgages in their own name if the TPO is also a Mortgagee.

(C) Required Documentation

A Mortgagee with Unconditional Direct Endorsement authority must confirm registration of its sponsored TPO on the Sponsored Originator Maintenance screen in FHAC. A Mortgagee must register its sponsored TPO on the Sponsored Originator Maintenance screen in FHAC if the sponsored TPO is not on the registry. The sponsored TPO's legal name and Employer Identification Number (EIN) must be included.

b. Title II Single Family Lender Insurance Authority (01/24/2022)

i. Scope of Authority

Approval to participate in FHA's Title II Single Family Lender Insurance Program permits a Mortgagee to endorse Mortgages for insurance with no prior review by FHA.

(A) Definitions

(1) Lender Insurance Authority

Lender Insurance (LI) Authority permits a Mortgagee with Title II Unconditional Direct Endorsement authority to endorse Single Family Mortgages for insurance without prior review by FHA.

(2) Lender Insurance Compare Ratio

The Lender Insurance (LI) Compare Ratio is the percentage of Mortgages underwritten by the Mortgagee that are in claim or default status compared with the percentage of Mortgages in claim or default status for all Mortgagees operating in the same state(s) over the preceding two-year period.

(B) Standard

To obtain Title II Single Family LI Authority, the Mortgagee must meet the eligibility requirements as stated below and successfully complete the application and approval processes.

ii. Eligibility Requirements

(A) Standard

To obtain LI approval, the Mortgagee must:

- be an FHA-approved Mortgagee with Unconditional Direct Endorsement authority; and
- have an LI Compare Ratio that is at or below 150 percent.

(1) Exception for New Mortgagees Created by Merger, Acquisition, or Reorganization Resulting in New FHA Lender Identification Number

If the Mortgagee lacks an LI Compare Ratio because it was recently created by a merger, acquisition, or reorganization that resulted in the issuance of a new FHA Lender ID, it must:

- have Unconditional Direct Endorsement authority;
- have had one or more Mortgagees with LI Authority at the time of the merger, acquisition, or reorganization, participate in the merger, acquisition, or reorganization;
- have had an acceptable LI Compare Ratio for all Mortgagees with LI Authority participating in the merger, acquisition, or reorganization, at the time of the merger, acquisition, or reorganization;
- have an LI Compare Ratio that is derived from aggregating the claims and defaults of all formerly FHA-approved Mortgagees participating in the merger, acquisition, or reorganization that is not more than 150 percent; and
- ensure that the management and staff who were involved with LI processing for the FHA-approved Mortgagee prior to the merger, acquisition, or reorganization will continue to exercise those responsibilities for the new Mortgagee.

iii. Application and Approval

(A) First-Time Applicants

(1) Standard

The Mortgagee must apply for LI Authority through FHAC.

(2) Required Documentation

Before applying, the Mortgagee must make a written determination that it will participate in the LI Program. The Mortgagee's written determination to participate in the LI Program must be signed by a Principal Owner or Corporate Officer. The Mortgagee must retain a copy of such written determination and make it available to HUD upon request.

(3) Approval

FHAC will automatically approve or deny the Mortgagee's LI Authority based on the Mortgagee's Direct Endorsement approval status and LI Compare Ratio.

(B) Application from Mortgagee Created by Merger, Acquisition, or Reorganization Resulting in New FHA Lender Identification Number

(1) Standard

Mortgagees created through mergers, acquisitions, or reorganizations that are issued a new FHA Lender ID must apply for LI Authority through LEAP.

(2) Required Documentation

The Mortgagee's application must contain the following:

- a copy of the Acknowledgment of Terms and Conditions for LI screen in FHAC, printed and signed by a Corporate Officer;
- the name and contact information of the LI contact person and, at the discretion of the Mortgagee, the name and contact information for the back-up LI contact person;
- the name and FHA Lender ID of the new Mortgagee;
- the names and FHA Lender IDs of the Mortgagees participating in the merger, acquisition, or reorganization; and
- information identifying the management and staff experienced with LI processing employed by the new Mortgagee or transferring from a Mortgagee that previously held LI approval, and describing how the management and staff will continue to exercise LI responsibilities for the new Mortgagee.

(C) Reinstatement

A Mortgagee that voluntarily withdrew its LI Authority may apply for reinstatement.

(1) Standard

The Mortgagee must meet the LI Eligibility Requirements.

(2) Required Documentation

The Mortgagee must apply for reinstatement of LI Authority by submitting a Change Request for Add Insurance Authority in LEAP and include the following:

- a copy of the *Acknowledgment of Terms and Conditions for LI* page from FHAC, signed by a Corporate Officer;
- detailed description of the reason(s) the LI Authority was previously withdrawn;
- description of the corrective action taken, if necessary; and

- the name and contact information of the LI contact person and, at the discretion of the Mortgagee, the name and contact information for the back-up LI contact person.

iv. Post-approval Requirement

(A) Lender Insurance Contact Information

A Mortgagee approved for LI Authority must maintain the Mortgagee's LI contact information in the Lender Insurance Contact function in FHAC.

c. Title I Programs (11/07/2023)

i. Title I Insurance Authority

(A) Sponsor/Sponsored Third-Party Originator Relationship

(1) Definition

A Sponsor/Sponsored Third-Party Originator (TPO) Relationship is one in which a Title I Lender (acting as the "sponsor") permits another entity to act as an originator and originate Title I-insured Direct Loans on behalf of the Lender.

(2) Standard

A Title I Lender may sponsor a TPO only in connection with the Direct Loan process.

The TPO may not be a Title I Manufactured Home Dealer or Title I Property Improvement Dealer, who are subject to requirements for supervision and monitoring.

A Title I Lender must ensure its sponsored TPO meets all state license, registration, or equivalent approval requirements.

A Title I Lender must ensure its sponsored TPO and the TPO's officers, partners, directors, principals, managers, supervisors, loan processors, and loan originators are not ineligible under 24 CFR § 202.5(j).

A sponsored TPO is authorized to originate Loans for sale or transfer to a Title I approved Lender. A Title I approved Lender must ensure its sponsored TPO does not close Loans in their own name.

Exception for Title I Lenders Acting as a Sponsored Third-Party Originator

A Title I Lender may permit its sponsored TPO to close Loans in their own name if the TPO is also a Title I Lender.

(3) Required Documentation

The Title I Lender reporting the Loan for insurance in FHAC must document the following information in the case binder:

- Employer Identification Number (EIN)
- Name of Sponsored TPO
- Loan Officer Name
- FHA Lender ID Number for TPO if also FHA Approved

(B) Direct Endorsement Authority for Property Improvement Loan

FHA's Direct Endorsement delegated authority does not apply to the Title I Property Improvement Loan program.

Lenders originate Property Improvement Loans, and underwrite, close and disburse before reporting the Loan for Title I case number assignment and insurance. HUD does not require the Lender to submit loan documents to HUD prior to or at the time of reporting the Loan. Lenders submit loan documents only for claim filing or any Post-Endorsement Technical Review (PETR).

(1) FHA Lender Approval

A Lender must have FHA approval as a Title I Supervised, Nonsupervised, or Government Lender to be eligible to participate in the Title I program.

(2) Underwriter Qualifications

(a) Standard

The underwriter must be a full-time employee of the Lender.

The underwriter must be a reliable and responsible professional who is skilled in loan evaluation and is able to demonstrate knowledge and experience regarding principles of retail installment sales and loan underwriting.

(b) Required Documentation

The Lender is not required to register the underwriter for Title I Property Improvement Loans.

(C) Direct Endorsement Authority for Manufactured Home Loan

(1) Scope of Authority

Approval to participate in FHA's Direct Endorsement Program permits a Lender to underwrite Title I Single Family Loans without FHA's prior review and submit them directly for FHA insurance endorsement.

(a) Definitions

(i) Conditional Direct Endorsement Authority

Conditional Direct Endorsement Authority is the authority of a Lender that has applied for and received basic FHA Lender approval as a Supervised, Nonsupervised, or Government Lender, and has not entered or completed the Test Case Phase.

Test Case Phase

The Test Case Phase is when a Lender must submit each case binder to HUD for a pre-closing review. If the Loan passes the review, HUD will issue permission to close the Loan. Once HUD determines that the Lender has sufficient competence, HUD will grant the Lender permission to close Loans without a pre-closing review. However, a minimum of 10 Loans must go through the pre-closing review process before HUD will waive the pre-closing review process.

(ii) Unconditional Direct Endorsement Authority

Unconditional Direct Endorsement Authority permits a Lender to underwrite and close Title I Loans prior to submitting them to FHA for FHA insurance endorsement.

(b) Standard

To obtain Unconditional Direct Endorsement authority, the Lender must successfully complete the Test Case Phase, which permits FHA to evaluate the Lender's qualifications, experience, and expertise to underwrite Loans that satisfy FHA requirements.

(2) FHA Lender Approval

A Lender must have FHA approval as a Title I Supervised, Nonsupervised, or Government Lender to be eligible to participate in the DE Program.

Lenders approved as investing Lenders are not eligible to participate in the DE Program.

(3) Underwriter Qualifications

(a) Standard

The underwriter must be a full-time employee of the Lender.

The underwriter must be a reliable and responsible professional who is skilled in loan evaluation and is able to demonstrate knowledge and experience regarding principles of retail installment sales and loan underwriting.

(b) Required Documentation

The Lender must register each underwriter in FHA Connection (FHAC). By registering the underwriter in FHAC, the Lender certifies that the underwriter meets the necessary qualifications to underwrite Title I Manufactured Home Loans.

(4) Exception for Certain Lenders Created by Merger, Acquisition, or Reorganization

Unconditional Direct Endorsement authority may be granted without the need for the Test Case Phase to surviving FHA-approved Lenders or to new Lenders resulting in new FHA Lender IDs, so long as the following criteria are met:

- either or both institutions were unconditionally Direct Endorsement-approved prior to the merger, acquisition, or reorganization; and
- if both institutions are unconditionally Direct Endorsement-approved, then the management and staff of at least one of the Lenders involved with the Lender's Unconditional Direct Endorsement authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Lender. If only one institution is unconditionally Direct Endorsement-approved, then the management and staff involved with that Lender's Unconditional Direct Endorsement authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Lender.

(D) Application and Approval for Direct Endorsement Authority for Manufactured Home Loans

(1) First-Time Applicants

(a) Application

***(i)* Request to Enter into the Test Case Phase**

The Lender must submit a written application for Unconditional Direct Endorsement authority to the Financial Operations Center (FOC), Attention: Premiums (Title I Insurance Processing) Branch. To be approved to participate in FHA's Title I Direct Endorsement Program, each Lender must satisfactorily underwrite sufficient pre-closing Test Cases, as prescribed by HUD.

(ii) Required Documentation

To apply for Direct Endorsement Title I authority, the Lender must submit a letter to the FOC requesting entry into the Test Case Phase. The letter must contain the Lender's home office address and 10-digit Lender ID and be signed by a Corporate Officer.

Test Case Phase

The Lender must submit at least 10 Title I Test Cases to the FOC for review and final approval before closing and disbursing loan funds.

The Lender must submit loan documentation to the attention of MH Pre-Closing Review at the FOC.

(b) Approval Decision

(i) Approval of Unconditional Direct Endorsement Authority

The FOC will review these cases for compliance with origination and underwriting requirements and issue a written approval or denial to the Lender.

The Lender may only close and submit for insurance endorsement any Loan that receives written approval.

HUD will approve the Lender for Unconditional Direct Endorsement when HUD determines that the Lender is consistently submitting Loans that satisfactorily meet Title I program requirements.

HUD will advise the Lender in writing when Unconditional Direct Endorsement approval is granted.

Direct Endorsement Processing

An Unconditional Direct Endorsement-approved Lender must continue to report each Loan to HUD by obtaining a Title I case number through FHAC. The Lender must also comply with HUD's post-closing requirements, including completing the insurance application and submitting the case binder for pre-endorsement review.

Approval Limitations

HUD may revoke a Lender's Unconditional Direct Endorsement approval, or limit the approval to certain types of Loans. (HUD may extend or revoke DE approval in whole or in part at any time.)

(ii) Denial of Unconditional Direct Endorsement Authority

The Lender will be denied approval for Unconditional Direct Endorsement authority if, at any time during the Test Case Phase, FHA determines that the Lender's submissions demonstrate a lack of knowledge of FHA requirements, or if FHA identifies unacceptable practices.

Denial Decision

FHA will provide the Lender with written notice of a denial of Unconditional Direct Endorsement authority that specifies the reason for the denial.

Denial Appeal

The Lender may appeal this denial by requesting an informal conference. The Lender must submit its appeal in writing to the FOC. The FOC must receive the appeal within 30 Days of the date of the notice of denial.

Informal Conference

FHA will conduct an informal conference with the Lender and its counsel, if any, no later than 60 Days from the date of the denial.

Determination

FHA will issue a determination in writing following the informal conference stating whether Unconditional Direct Endorsement authority is approved or denied. The decision after the conference constitutes final agency action.

(iii) Reapplication following Denial

Any Lender who is denied Unconditional Direct Endorsement authority will not be permitted to re-apply until it has:

- demonstrated appropriate remedial education or action;
- supplied evidence to support such action; and
- waited a minimum of 180 Days from the date of final agency action.

(2) Applications from Lenders Created by Merger, Acquisition, or Reorganization

(a) Standard

The Lender must submit a written application for Unconditional Direct Endorsement authority to the FOC.

(b) Required Documentation

The Lender's Direct Endorsement application must contain the following:

- a letter signed by a Corporate Officer requesting Unconditional Direct Endorsement authority that specifies:
  - the FHA-approved and non-approved entities involved in the merger, acquisition, or reorganization;
  - which entity is the surviving entity; and
  - the effective date of the merger, acquisition, or reorganization; and
- supporting documentation evidencing that the Lender meets the exception criteria detailed above.

d. Title II Multifamily Accelerated Processing Authority (04/18/2023)

Title II Multifamily Accelerated Processing (MAP) authority permits Mortgagees to underwrite and close multifamily Mortgages for FHA insurance with FHA's review prior to closing. The Office of Multifamily Housing grants this authority. Details on this authority are in the *Multifamily Accelerated Processing (MAP) Guide 4430.G*, which is available in HUD's Client Information and Policy System (HUDCLIPS).

e. Title II Direct Endorsement Lender Condominium Project Review and Approval Process Authority (10/15/2019)

i. Scope of Authority

Approval to participate in the Direct Endorsement Lender Review and Approval Process (DELRAP) permits a Mortgagee to review and approve Condominium Projects and submit the Condominium Project for listing on FHA's Approved Condominium Project list.

(A) Definitions

(1) Conditional DELRAP Authority

Conditional DELRAP Authority refers to the authority of a Mortgagee that has provided notice to FHA of its intent to participate in DELRAP and requires the Mortgagee to submit all Condominium Project Approvals to FHA for review.

(2) DELRAP Test Case Phase

The DELRAP Test Case Phase refers to the time period in which a Mortgagee with Conditional DELRAP Authority is required to submit Condominium Project Approvals to FHA for review.

(3) Unconditional DELRAP Authority

Unconditional DELRAP Authority refers to the authority of a Mortgagee to approve Condominium Projects in accordance with HUD requirements and submit the Condominium Projects for listing on FHA's Approved Condominium Project list without any prior Condominium Project review by FHA.

(B) Standard

To obtain Unconditional DELRAP Authority, the Mortgagee must successfully complete the DELRAP Test Case Phase, which permits FHA to evaluate the Mortgagee's qualifications, experience, and expertise to review and approve Condominium Projects.

ii. Eligibility Requirements

(A) Standard

The Mortgagee must meet the following requirements to apply for and participate in FHA's DELRAP.

(1) FHA Title II Direct Endorsement Approval

A Mortgagee must have FHA approval as a Title II Unconditional Direct Endorsement Mortgagee.

(2) Mortgagee Experience

The Mortgagee must have originated not less than 10 FHA Mortgages in Condominium Projects approved by the Commissioner.

(3) Personnel Requirements

The Mortgagee must have at least one staff member with a minimum of one year of experience underwriting Mortgages on Condominium Units and/or reviewing Condominium Projects for FHA approval and must ensure that staff members participating in the approval of Condominium Projects either:

- meet the experience requirement; or
- are supervised by staff that meet the one-year experience requirement.

(4) Quality Control Plan

The Mortgagee must have a QC Plan that includes specific provisions related to DELRAP.

(B) Exception for Certain Mortgagees Created by Merger, Acquisition, or Reorganization

Unconditional DELRAP Authority may be granted without the need for the DELRAP Test Case Phase following a merger, acquisition, or reorganization, provided that the following criteria are met:

- The surviving FHA-approved Mortgagee or the FHA-approved Mortgagee resulting in a new FHA Lender ID was granted Unconditional DELRAP Authority prior to the merger, acquisition, or reorganization.
- If both institutions have Unconditional DELRAP Authority, then the management and staff of at least one of the Mortgagees involved with the Mortgagee's Unconditional DELRAP Authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee.
- If only one institution has Unconditional DELRAP Authority, then the management and staff involved with that Mortgagee's Unconditional DELRAP Authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee.

iii. Application and Approval

(A) First-Time Applicants

(1) Application

(a) Request to Enter DELRAP Test Case Phase

The Mortgagee must apply for Unconditional DELRAP Authority by submitting a request to the FHA Resource Center at answers@hud.gov.

(b) Required Documentation

The Mortgagee must submit a letter signed by a Corporate Officer requesting entry into the DELRAP Test Case Phase that:

- specifies the Mortgagee's home office 10-digit FHA Lender ID; and
- certifies that the staff has met the Eligibility Requirements prior to Conditional or Unconditional DELRAP Authority being granted.

(2) Notification

If the Mortgagee meets the requirements for DELRAP authority and submits the required documentation, FHA will advise the Mortgagee in writing that they may proceed with submitting Condominium Project Test Cases for review.

(3) Test Case Process

Mortgagees with Conditional DELRAP Authority must review the Condominium Project in accordance with the Condominium Project Approval requirements to determine if the Condominium Project meets FHA approval requirements.

(4) Test Case Submission Requirements

The Mortgagee must submit all Test Cases to the FHA Resource Center at answers@hud.gov. FHA will review these Test Cases for compliance with FHA's Condominium Project Approval requirements.

(5) Approval Decision

(a) Approval of Unconditional DELRAP Authority

The Mortgagee must satisfactorily complete a minimum of five DELRAP reviews with no more than one review being rated unacceptable. FHA may require less than five DELRAP reviews and will consider previous experience. The Condominium Project Test Cases must be submitted within a period of 12 consecutive months following the date of application, or such other extended time as determined by FHA, in order to be granted Unconditional DELRAP Authority. After the Mortgagee successfully completes the required Condominium Project Test Cases, the Mortgagee will be notified that they have been granted Unconditional DELRAP Authority.

(b) Denial of Unconditional DELRAP Authority

The Mortgagee will be denied approval for Unconditional DELRAP Authority if, at any time during the DELRAP Test Case Phase, FHA determines that the Mortgagee's submissions demonstrate a lack of knowledge of FHA requirements, or FHA identifies unacceptable practices.

(i) Denial Decision

FHA will provide the Mortgagee with notice of a denial of Unconditional DELRAP Authority that specifies the reason for the denial.

(ii) Denial Appeal

The applicant may submit an appeal of the denial decision to the FHA Resource Center at answers@hud.gov with the following subject line: *DELRAP Denial Appeal* within 30 Days of the date of the denial.

(iii) Informal Conference

If the denial is sustained, the applicant may submit a second appeal to the Office of Single Family Program Development through the FHA Resource Center at answers@hud.gov. The Director or designee will conduct an informal conference with the Mortgagee and its counsel, if any, no later than 60 Days from the date of FHA's initial denial of the appeal.

(iv) Determination

FHA will issue a determination following the informal conference stating whether Unconditional DELRAP Authority is approved or denied.

(v) Reapplication following Denial

If Unconditional DELRAP Authority is denied, the applicant is ineligible to apply for DELRAP Authority for a period of 12 months after the date of the original denial decision or the date of the informal conference sustaining the denial decision.

(B) Applications from Mortgagees Created by Merger, Acquisition, or Reorganization

(1) Standard

The Mortgagee must apply for Unconditional DELRAP Authority by submitting a request to the FHA Resource Center at answers@hud.gov.

(2) Required Documentation

The Mortgagee must submit a letter signed by a Corporate Officer requesting Unconditional DELRAP Authority that specifies:

- the FHA-approved and non-approved entities involved in the merger, acquisition, or reorganization;
- which entity is the surviving entity;
- the effective date of the merger, acquisition, or reorganization; and
- supporting documentation evidencing that the Mortgagee meets the exception criteria.

(C) Post-approval Requirement

(1) FHA Connection Authorization

A Mortgagee approved for Conditional DELRAP Authority or Unconditional DELRAP Authority must register and maintain all Mortgagee employees designated to review/approve Condominium Projects in the Condominium Reviewer Registry function in FHAC.

6. Post-approval Operations

a. Operating Requirements and Restrictions (09/14/2015)

A Mortgagee must comply with the following operating requirements and restrictions for its FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in this Handbook 4000.1.

b. Providing Information to FHA (05/09/2022)

Once approved, a Mortgagee must provide the following information to FHA using LEAP. The Mortgagee has an obligation to keep the information up to date.

i. Addresses for Correspondence

The Mortgagee must provide the following office addresses:

- Mailing - address of home office
- Geographic - street address(es) where its home and branch offices are physically located
- Administrative - street address to which HUD administrative notices from the HOC Quality Assurance and Processing and Underwriting Divisions, Office of Lender Activities and Program Compliance, Mortgagee Review Board (MRB), Office of General Counsel (OGC), and Office of Inspector General (OIG) are sent, including requests and/or demands for indemnification
- Premium - address to which FHA insurance premium correspondence is sent
- Payee - address to which FHA claim correspondence is sent
- Servicing - street address of the main servicing office
- Computerized Homes Underwriting Management System (CHUMS) - address to which FHA originating, underwriting, endorsing, and closing correspondence is sent
- Endorsement - address to which all FHA mortgage endorsement correspondence is sent, including the Mortgage Insurance Certificate (MIC)

ii. Point of Contact

The Mortgagee must provide a primary administrative contact and an associated email address. The administrative contact is the point of contact associated with the Mortgagee's administrative address and is the primary contact for all interaction between the Mortgagee and FHA. All HUD administrative notices from the HOC Quality Assurance and Processing and Underwriting Divisions, Office of Lender Activities and Program Compliance, MRB, OGC, and OIG will be sent to the administrative contact, including requests and/or demands for indemnification.

Point of contact information is optional for all other addresses listed above.

iii. All Other Contact and Identification Information

The Mortgagee must provide all other required contact and identification information requested in LEAP, including phone, fax, email, and NMLS ID.

iv. Branch Office Information

For each registered branch office, the Mortgagee must provide the branch's address, phone number, email address, DBA name, and branch and regional managers.

v. Title II Mortgagee Principal/Authorized Agent Relationships

The Title II Mortgagee must identify its principal/authorized agent relationships in LEAP.

vi. Sponsor/Sponsored Third-Party Originator Relationships

The Mortgagee must identify its sponsored TPOs on the Sponsored Originator Maintenance screen in FHAC if the sponsored TPO is not on the registry. The sponsored TPO's legal name and EIN must be included.

vii. Cash Flow and Electronic Funds Transfer Accounts

The Mortgagee must use the Cash Flow Account Setup function in LEAP to provide its bank account information for the following payment types:

- Title I, Single Family Upfront Premiums
- Title I, Single Family (Periodic) Annual Premiums
- Title II, Single Family Upfront Premiums
- Title II, Single Family (Periodic) Monthly Premiums
- Title II, Single Family Claim Remittance Amounts

The Mortgagee must use the Electronic Funds Transfer (EFT) Account Setup function in LEAP to provide its bank account information for FHA Insurance benefits payments.

viii. Title II Mortgagee Loan Review System Authorizations

The Title II Mortgagee must grant the Loan Review System (LRS) authorizations in FHAC to staff it deems qualified to perform the relevant function(s).

The Title II Mortgagee must grant the LRS Indemnification authorization to individuals authorized by the Title II Mortgagee to sign indemnification agreements.

c. Compliance with Law (09/14/2015)

The Mortgagee must ensure that its operations are compliant with all applicable federal, state, and local laws.

d. Servicing of FHA-Insured Title II Mortgages and Title I Loans (05/09/2022)

i. Title II Mortgages

The servicing of FHA-insured Title II Mortgages must be performed by an FHA-approved Mortgagee with Title II program approval and approval to service Title II Mortgages. FHA-approved Mortgagees that use a subservicer to service FHA-insured Title II Mortgages must ensure the subservicer is also approved by FHA to service FHA-insured Title II Mortgages. The servicing Title II Mortgagee is responsible for the actions of its subservicers.

ii. Title I Loans Held by Supervised, Nonsupervised, and Government Title I Lenders

An Agent is not required to be approved as a Title I Lender to service Title I Loans that are held by the Supervised, Nonsupervised, or Government Title I Lender. The Title I Lender holding the Title I Loans is responsible for ensuring the Loans are serviced by the agent in accordance with HUD/FHA requirements.

iii. Title I Loans Held by Title I Investing Lenders

A Title I Investing Lender may not directly service Title I Loans it holds except with the prior approval of the Department. All Title I Loans held by a Title I Investing Lender without servicing authority must be serviced or subserviced by a Title I Lender with a Title I Contract of Insurance and approval to service Title I Loans.

e. Employee Compensation (03/14/2016)

The Mortgagee must ensure its employees are compensated in accordance with the requirements for FHA approval.

f. Conflicts of Interest (12/15/2022)

This policy applies to all FHA-insured transactions unless otherwise specified in program requirements.

Participants that have a direct impact on the mortgage approval decision are prohibited from having multiple roles or sources of compensation, either directly or indirectly, from a single FHA-insured transaction. These participants are:

- underwriters
- Appraisers
- inspectors
- engineers

Indirect compensation includes any compensation resulting from the same FHA-insured transaction, other than for services performed in a direct role. Examples include, but are not limited to:

- compensation resulting from an ownership interest in any other business that is a party to the same FHA-insured transaction; or
- compensation earned by a spouse, domestic partner, or other Family Member that has a direct role in the same FHA-insured transaction.

The Mortgagee must ensure that participants with a direct impact on the mortgage approval decision do not have multiple roles or sources of compensation from the same FHA-insured transaction.

Participants that do not have a direct impact on the mortgage approval decision may have multiple roles and/or sources of compensation for services actually performed and permitted by HUD, provided that the FHA-insured transaction complies with all applicable federal, state, and local laws, rules, and requirements.

g. Payment of Operating Expenses (03/14/2016)

i. Definition

Operating Expenses are the costs associated with equipment, furniture, office rent, overhead, and employee compensation.

ii. Standard

The Mortgagee must pay all of its own operating expenses, including the expenses of its home office and any branch offices where it conducts FHA business.

The Mortgagee must maintain all accounts for operating expenses in its name.

h. Prohibited Payments (09/14/2015)

The Mortgagee, or any of the Mortgagee's employees, must not pay or receive, or permit any other party involved in an FHA-insured mortgage transaction to pay or receive, any fee, kickback, compensation or thing of value to any person or entity in connection with an FHA-insured mortgage transaction, except for services actually performed and permitted by HUD. The Mortgagee must not pay a referral fee to any person or entity. The Mortgagee is not permitted to:

- advance funds to a real estate agent, real estate broker, mortgage broker, or packager as an advance of anticipated commissions on sales to be financed with an FHA-insured Mortgage to be provided by the Mortgagee;
- make low interest or no interest Mortgages to a real estate broker, real estate agent, mortgage broker, packager, builder or any other party from whom the Mortgagee accepts proposals involving FHA-insured Mortgages; or
- pay a gratuity or make a Gift valued above items that are customarily distributed in the normal course of advertising, public relations, or as a general promotion device, to any person or entity involved in the Mortgagee's FHA-insured mortgage transactions.

i. Staffing (09/14/2015)

The Mortgagee must employ sufficient, experienced staff or engage, as permitted, the contract support necessary to carry out the Mortgagee's FHA business.

The Mortgagee is responsible for the actions of its staff that participate in FHA transactions. The Mortgagee must ensure that its Corporate Officers exercise control over the management and supervision of such staff, which must include regular and ongoing reviews of staff performance and of the work performed.

The Mortgagee is responsible for ensuring compliance with the licensing and registration requirements applicable to individual loan originators under the SAFE Act.

j. Use of Contractors (09/26/2022)

i. Permissible Use

The Mortgagee may use contract support for administrative, human resources, and clerical functions that include:

- clerical assistance;
- mortgage processing (typing of mortgage documents, mailing and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping Mortgages to the Purchasing Mortgagee);
- ministerial tasks in mortgage servicing (processing of a foreclosure action, preservation and protection, and/or tax services);
- legal functions;
- Third Party Verification;
- Quality Control; and
- human resources services (payroll processing, payment of employment taxes and the provision of employee benefits) provided by a professional employer organization or a similar entity.

A Supervised, Nonsupervised, or Government Title I Lender may use an agent to service Title I Loans for which it is the holder.

Third Party Verification (TPV) refers to a process through which a Mortgagee may use a third party vendor to independently verify information in a loan application or otherwise required for loan approval. TPV can be used to verify employment, income, assets, credit, and occupancy.

ii. Impermissible Use

The Mortgagee may not contract with any entity or person that is suspended, debarred, under a Limited Denial of Participation (LDP), or who is otherwise excluded from participation in FHA transactions.

A Mortgagee must not contract out management or underwriting functions.

iii. Standard

The Mortgagee must ensure that the contracting out of certain functions does not and will not materially affect underwriting or servicing decisions or otherwise increase financial risk to FHA.

The Mortgagee remains responsible for the quality of its FHA-insured Mortgages and must ensure that its contractors fully comply with all applicable laws and FHA requirements.

The Mortgagee may own or have an ownership interest in a separate business entity that offers such contract services.

Employees covered by a contract for human resources services described above must remain under the direct supervision and control of the Mortgagee. FHA considers the Mortgagee, the employer with respect to all activities related to FHA business, and the Mortgagee retains full responsibility and legal liability for the actions of employees covered by a contract for human resources services with regard to all HUD regulations and requirements.

iv. Required Documentation

The Mortgagee and its contractor must have a valid contractual agreement in place that specifies the roles and responsibilities of each party.

k. Affiliates (09/14/2015)

i. Definition

Affiliates are contractors, agents, vendors, subservicers, and sponsored TPOs who participate in FHA programs on behalf of an FHA-approved Mortgagee.

ii. Standard

The Mortgagee must ensure that its Affiliates are eligible and properly trained to participate in FHA programs.

The Mortgagee must ensure that each Affiliate of the Mortgagee adheres to FHA requirements when performing activities related to that Mortgagee's FHA business.

l. Branch Office Requirements (09/14/2015)

All branch offices must meet FHA's Staffing, Office Facilities, and operating requirements, and all applicable licensing requirements.

m. Fair Housing Notice (09/14/2015)

The Mortgagee must prominently display a fair housing poster at each office that participates in activities related to Residential Real Estate-Related Transactions so as to be readily apparent to all persons seeking residential real estate or brokerage services. The Mortgagee must prominently display the Equal Housing Opportunity logo on documents, including both hard copy and electronic documents, distributed by the Mortgagee to the public.

n. Advertising (09/14/2015)

i. Definitions

(A) Advertising

Advertising is any communication made to an outside entity or individual that describes or calls attention to a Mortgagee's FHA products or services.

(B) Advertising Device

An Advertising Device is a channel or instrument used to solicit, promote, or advertise FHA products or programs. Advertising Devices are present in the entire range of electronic and print media utilized by Mortgagees, including, but not limited to, websites, website addresses, business names, aliases, DBA names, domain names, email addresses, direct mail advertisements, solicitations, promotional materials, and correspondence.

ii. Standard

(A) Advertising

A Mortgagee is solely responsible for the content of its advertising. This includes advertising abuses by employees of the approved Mortgagee, and any violations committed by employees of Affiliates or companies that advertise or generate FHA mortgage leads or other FHA business on behalf of the Mortgagee. The Mortgagee must ensure that all of its advertising communications and Advertising Devices, and the communications and Advertising Devices of its Affiliates, comply with all applicable state licensing and regulatory requirements.

(B) Advertising Device

A Mortgagee must not create the false impression that any of its Advertising Devices are official government forms, notices, or documents or that otherwise convey the false impression that an Advertising Device is authored, approved, or endorsed by HUD or FHA.

The Advertising Device must be written, formatted, and structured in a manner that clearly identifies the Mortgagee as the sole author and originator of the Advertising

Device. The Advertising Device must reflect the Mortgagee's name, location, and appropriate contact information.

(1) HUD and FHA Names and Acronyms

The use of the words "federal," "government," "national," "U.S. Department of Housing and Urban Development," "Federal Housing Administration," and/or the letters "HUD" or "FHA," either alone or with other words or letters, by an FHA-approved Mortgagee, non-approved Mortgagee, or sponsored TPO in a manner that falsely represents that the Mortgagee's business services or products originate from HUD, FHA, the government of the United States, or any federal, state or local government agency is strictly prohibited.

(2) HUD and FHA Logos and Seals

Other than permissible use of the official FHA-Approved Lending Institution logo and the Equal Housing Opportunity logo, a Mortgagee must not use FHA or HUD logos or seals, any other official seal or logo of the U.S. Department of Housing and Urban Development, or any other insignia that imitates an official federal seal. No person, party, company, or firm, including FHA-approved Mortgagees, may use these logos or seals on any Advertising Device.

(a) FHA-Approved Lending Institution Logo User Restrictions

Only an FHA-approved Mortgagee may display the official FHA-Approved Lending Institution logo on an Advertising Device for the purpose of illustrating to the public the fact that the Mortgagee originates FHA-insured mortgage products.

The Mortgagee must not permit its sponsored TPOs to use the official FHA-Approved Lending Institution logo on any Advertising Device; unless the sponsored TPO is also an FHA-approved Mortgagee.

(b) FHA-Approved Lending Institution Logo Content Restrictions

The FHA-Approved Lending Institution logo must be displayed in a discreet manner. The Advertising Device, when taken as a whole, must emphasize the institution or DBA name of the Mortgagee, and not the federal government.

When using the FHA-Approved Lending Institution logo on an Advertising Device, the Mortgagee must include a conspicuous disclaimer that clearly informs the public that the Mortgagee displaying the Advertising Device is not acting on behalf of or at the direction of HUD, FHA, or the federal government. The disclaimer must be prominently displayed in a location proximate to where the FHA-Approved Lending Institution logo is displayed on each Advertising Device.

The Mortgagee may not alter or modify the FHA-Approved Lending Institution logo in any way.

(3) Advertising Devices of Sponsored Third-Party Originators

Advertising Devices used by sponsored TPOs must reflect the sponsored TPO's name, location, and appropriate contact information.

Sponsored TPOs are prohibited from engaging in any activity or authoring or distributing any Advertising Device that falsely advertises, represents, or otherwise conveys the impression that the sponsored TPO's business operations, products, or services either originate from or are expressly endorsed by HUD, FHA, the government of the United States, or any federal, state or local government agency.

iii. Required Documentation

The Mortgagee must retain copies of any Advertising Device it produces that is related to FHA programs for a period of two years from the date that the Advertising Device is circulated or used for advertisement, educational, or promotional purposes. Copies of Advertising Devices related to FHA programs may be kept in either electronic or print format and are to be provided to HUD upon request.

7. Post-approval Changes

The Mortgagee has an ongoing requirement to notify FHA of any changes to the information outlined in its application for FHA approval or that affect the Mortgagee's compliance with any of FHA's eligibility requirements.

a. Requirements for All Post-approval Changes (09/14/2015)

i. Types of Notification

(A) Information Update

An Information Update is any change to a Mortgagee's basic institution or branch information in the FHA systems that can be directly managed by the Mortgagee.

(B) Notice of Material Event

A Notice of Material Event is the method of submitting a required notice to FHA of a change to the information provided by the Mortgagee at application as evidence of approval eligibility, or a change that affects the Mortgagee's standing as an FHA-approved Mortgagee.

(C) Change Request

A Change Request is the method of submitting information and/or business changes to FHA that requires FHA review and approval before acceptance. Any update or change that cannot be made by the Mortgagee directly is submitted as a Change Request.

ii. Standard

The Mortgagee must submit all Information Updates, Notices of Material Event, and Change Requests to FHA using LEAP. All Information Updates, Notices of Material Event, and Change Requests must be submitted within 10 business days of the change, unless otherwise specified below.

Any change not specifically described in this Handbook 4000.1 that affects a Mortgagee's approval status or conduct of business with HUD must be reported to FHA with a detailed explanation and supporting documentation.

iii. Required Documentation

The Mortgagee must:

- include a cover letter signed by a Corporate Officer summarizing the business change(s); and
- submit any required documents as specified in Application and Eligibility Requirements for Approval or as described in the LEAP User Manual.

b. Information Updates (01/29/2020)

The Mortgagee must submit Information Updates, as applicable, for the following information:

- addresses for correspondence;
- point of contact;
- all other contact and identification information;
- branch office information;
- principal/authorized agent relationships;
- cash flow accounts; and
- electronic funds transfer accounts.

c. Change in Corporate Officer (04/18/2023)

The Mortgagee must submit a Change Request to FHA when updating Corporate Officer information, including the following:

- a letter, signed by a Corporate Officer, that informs FHA of the change;
- a resume of the new Corporate Officer covering the last seven years; and
- a TRMCR (not applicable for supervised FHA-approved entities).

d. Change in Partnership or Principal Owners (09/14/2015)

The Mortgagee must submit a Notice of Material Event to FHA if it experiences a change in Partnership or Principal Owners. This includes the addition or removal of partners or Principal Owners.

e. "Doing Business As" Names (09/14/2015)

The Mortgagee must submit Information Updates, as applicable, for all DBA names or aliases that the Mortgagee has a legal right to use. If the Mortgagee has six or more DBA names, the Mortgagee must submit a Change Request through LEAP to add additional names.

f. Relocation to a Different State (03/19/2024)

i. Home Office

If the Mortgagee is changing the geographic address of its home office to a different state, the Mortgagee must submit a Change Request to FHA through LEAP.

ii. Branch Office

If the Mortgagee is changing the geographic address of a registered branch office to a different state, the Mortgagee must terminate the branch FHA Lender ID for the original office and register the new location as a new branch office.

Approved Mortgages that were approved before the branch office termination became effective may be endorsed. Cases at earlier stages of processing cannot be submitted for insurance by the terminated branch. However, the cases may be transferred for completion of processing and underwriting to another branch office or Mortgagee authorized to underwrite FHA-insured Mortgages in that area.

g. Liquid Assets or Net Worth Deficiency (09/14/2015)

If at any time a Mortgagee's adjusted net worth or liquidity falls below the required minimum, the Mortgagee must submit a Notice of Material Event to FHA within 30 business days of the deficiency. The Mortgagee must submit a Corrective Action Plan that outlines the steps taken to mitigate the deficiency and includes relevant information, such as contributions and efforts made to obtain additional capital.

h. Operating Loss (09/20/2021)

A Notice of Material Event must be submitted to FHA within 30 business days of the end of each fiscal quarter in which a Mortgagee experiences an operating loss of 20 percent or greater of its net worth.

Following the initial notification, the Mortgagee must submit financial statements every quarter until it shows an operating profit for two consecutive quarters, or until it submits its financial reports as part of its recertification, whichever period is longer.

i. Fidelity Bond (09/14/2015)

The Mortgagee must submit a Notice of Material Event to FHA of any significant change(s) to its fidelity bond coverage. If a Mortgagee loses its fidelity bond coverage it must obtain a new policy within 30 Days.

j. Errors and Omissions Insurance (09/14/2015)

The Mortgagee must submit a Notice of Material Event to FHA of any significant change(s) to its errors and omissions insurance. If a Mortgagee loses its errors and omissions insurance it must obtain a new policy within 30 Days.

k. Principal Activity Change of Nonsupervised Mortgagee (09/14/2015)

If a Nonsupervised Mortgagee's activities change such that it no longer meets the principal activity requirement, the Mortgagee must submit a Notice of Material Event to FHA and submit a Corrective Action Plan detailing the steps it will take to meet the principal activity requirement to maintain its eligibility.

l. Servicing (09/20/2021)

In order for a Mortgagee to service FHA-insured Mortgages after it has received FHA Mortgagee approval, a Mortgagee must submit a Change Request to FHA. With its Change Request, the Mortgagee must:

- designate an Officer in Charge who meets the experience requirements for the Mortgagee's servicing function;
- provide a resume for the Officer in Charge;
- provide a credit report for the Officer in Charge; and
- provide an updated QC Plan.

FHA evaluates these requests on a case-by-case basis and reserves the right to request additional documents necessary to determine the Mortgagee's servicing capabilities.

m. Fiscal Year End Date (09/14/2015)

The Mortgagee must submit a Change Request to FHA in order to change its fiscal year end date.

Before approving the change, FHA may require the Mortgagee to submit interim financial reports to ensure the Mortgagee's next annual renewal financial reports cover no more than 18 months. Change Requests must be submitted at least 90 Days before the end of the Mortgagee's current fiscal year, as reported to FHA.

n. Supervision Change (09/14/2015)

If there is a change to a Supervised Mortgagee's supervising or regulatory agency, the Mortgagee must submit a Notice of Material Event to FHA and provide documentation of the change and the effective date.

o. Business Form (09/14/2015)

The Mortgagee must submit a Notice of Material Event to FHA if it reincorporates; changes its charter; changes the state where it is incorporated, organized or chartered; or completes any other equivalent business change.

i. Change Resulting in New Federal Taxpayer Identification Number

If a Mortgagee receives a different federal Taxpayer Identification Number (TIN) as a result of a business change, the Mortgagee must submit a new application for FHA Mortgagee approval.

FHA will issue a new FHA Lender ID to the Mortgagee upon approval. When the new FHA Lender ID is issued, the old FHA Lender ID will remain active for approximately 45 Days to allow for completion of processing of Mortgages in process under that identification number.

ii. Change Not Resulting in New Federal Taxpayer Identification Number

If the Mortgagee does not receive a new federal TIN as a result of a business change, then the Mortgagee must submit the following documents to FHA:

- a Notice of Material Event in the form of a letter signed by a Corporate Officer containing the following provisions:
  - providing a complete description of the business change;
  - confirming that there has been no change in the federal TIN or depositor insurance (in the case of a Supervised Mortgagee);
  - stipulating that the institution will continue to comply with all FHA approval and eligibility requirements; and
  - stipulating that the newly chartered entity will continue to be responsible for the assets and liabilities of the former entity, including any problems found subsequently by HUD in the origination or servicing of any Mortgages originated or serviced by the entity prior to the business change; and
- a copy of the Business Formation Documents.

p. Bankruptcy (09/14/2015)

i. Business

A Mortgagee that files a Chapter 7 bankruptcy petition must submit a Notice of Material Event to FHA.

A Mortgagee that files a bankruptcy petition under any other chapter of the United States Bankruptcy Code must submit a Notice of Material Event to FHA and submit with its notice, and quarterly thereafter, an internally prepared balance sheet and a statement of adjusted net worth for as long as the bankruptcy petition is active.

The Mortgagee must submit a Notice of Material Event to FHA of each change of status in the bankruptcy. FHA reserves the right to require the Mortgagee to submit additional information upon request in order to determine if the Mortgagee is eligible to maintain its FHA approval.

ii. Personal

The Mortgagee must submit a Notice of Material Event to FHA if any Corporate Officer or Principal Owner commences voluntary or involuntary bankruptcy. A current credit report for that Corporate Officer or Principal Owner must be submitted with the Notice of Material Event. FHA must be notified of each change of status in the bankruptcy proceedings.

q. Lending License(s) (09/14/2015)

The Mortgagee must submit a Notice of Material Event to FHA of any changes to its license(s). In the event of a lending license surrender or revocation, the Mortgagee must notify FHA which license(s) has been surrendered and provide an explanation of each action.

r. Mergers, Acquisitions, and Reorganizations (04/10/2025)

i. Merger or Consolidation

FHA's treatment of an FHA-approved Mortgagee for approval purposes following a merger will depend on the prior approval status of the surviving entity.

(A) Duties of a Non-surviving FHA-Approved Mortgagee

(1) Standard

A non-surviving FHA-approved Mortgagee that holds a portfolio of FHA-insured Mortgages must transfer those Mortgages to a Mortgagee approved by FHA to service FHA Mortgages.

If a surviving FHA-approved Mortgagee acquires all of the non-surviving FHA-approved Mortgagee's outstanding FHA Mortgages, all of these Mortgages will be transferred in FHA systems to the surviving entity when the merger is processed.

A non-surviving Mortgagee remains responsible for the payment of insurance premiums and compliance with all other obligations associated with the FHA Mortgages until the Mortgages are transferred and the mortgage record changes

are reported accurately to HUD through FHAC, Electronic Data Interchange (EDI), or Business to Government (B2G).

Once the non-surviving Mortgagee ceases to exist or its approval is terminated, whichever comes first, the non-surviving Mortgagee must not:

- accept any new applications for FHA Mortgages;
- hold FHA Mortgages;
- service FHA Mortgages; or
- submit claims to HUD.

(B) Duties of a Surviving Entity

(1) FHA-Approved Mortgagee That Survives a Merger with a Non-approved Entity

(a) Standard

An FHA-approved Mortgagee that is the surviving entity in a merger with a non-approved entity must notify FHA of the merger.

The surviving FHA-approved Mortgagee may register each of the non-surviving entity's branch offices that will remain open under the auspices of the surviving Mortgagee and pay the branch office registration fee(s) for the branch office(s) it chooses to register.

(b) Required Documentation

An FHA-approved Mortgagee that is the surviving entity in a merger with a non-approved entity must submit a Change Request to FHA containing the following:

- a letter, signed by a Corporate Officer, that informs FHA of the merger. The letter must include information that:
  - provides the FHA Lender IDs for the surviving FHA-approved Mortgagee involved in the merger; and
  - provides the date the merger occurred or will occur;
- a copy of the legal document evidencing the merger;
- if a Supervised Mortgagee, a copy of the letter from the Federal Banking Agency that approved the merger; and
- if applicable, a letter describing how the non-servicing Mortgagee will dispose of the FHA-insured Mortgages that it held or serviced that have not been acquired by a surviving FHA-approved Mortgagee.

(2) Two or More FHA-Approved Mortgagees Merge

(a) Standard

An FHA-approved Mortgagee that is the surviving entity in a merger with another FHA-approved Mortgagee must notify FHA of the merger.

The surviving Mortgagee may register each of the non-surviving Mortgagee's branch offices that will remain open under the auspices of the surviving Mortgagee and pay the branch office registration fee(s) for the branch office(s) it chooses to register.

(b) Required Documentation

An FHA-approved Mortgagee that is the surviving entity in a merger with another FHA-approved Mortgagee must submit a Change Request to FHA containing the following:

- a letter, signed by a Corporate Officer, describing the merger;
- a copy of the legal document evidencing the merger; and
- if a Supervised Mortgagee, a copy of the letter from the Federal Banking Agency or other supervisory authority that approved the merger.

(3) Non-approved Entity That Survives a Merger with an FHA-Approved Mortgagee

(a) Standard

A non-approved surviving entity must become an FHA-approved Mortgagee in order to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages, or to submit claims on Mortgages to FHA, including those previously held by the non-surviving Mortgagee.

Immediately after becoming approved, the Mortgagee may register each of the non-surviving entity's branch offices that will remain open under the auspices of the surviving Mortgagee and pay the branch office registration fee(s) for the branch office(s) it chooses to register.

When new FHA Lender IDs for these branch offices are issued, the surviving Mortgagee must cease originating cases under the non-surviving Mortgagee's old FHA Lender ID numbers.

(b) Required Documentation

A non-approved surviving entity must submit an online application for FHA approval containing all information and documentation required to demonstrate eligibility for approval. The entity must also submit with its

application a letter signed by a Corporate Officer that describes the merger, and, if applicable, the surviving entity's intentions regarding the non-surviving Mortgagee's outstanding portfolio of FHA Mortgages and indemnifications.

ii. Sale, Acquisition, or Disassociation

FHA's treatment of a sale, acquisition, or disassociation of an FHA-approved Mortgagee depends on whether the FHA-approved Mortgagee dissolves, continues as a subsidiary or corporate affiliation of the acquiring entity, or becomes an independent entity.

(A) An FHA-Approved Mortgagee Is Acquired by Another Entity

(1) Dissolution of Acquired FHA-Approved Mortgagee

(a) Duties of Acquired FHA-Approved Mortgagee

(i) Standard

If an FHA-approved Mortgagee being acquired will be dissolved into another entity, it must voluntarily withdraw its FHA approval. The acquired Mortgagee must transfer any FHA-insured Mortgages in its portfolio to a Mortgagee approved to service FHA-insured Mortgages.

The dissolving Mortgagee must continue to pay insurance premiums due and meet all other obligations associated with its FHA Mortgages until the Mortgages are transferred and the mortgage record changes are reported accurately to HUD in FHAC, EDI, or B2G.

(ii) Required Documentation

The FHA-approved Mortgagee being acquired must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, that informs FHA of the details regarding the acquisition and requests the withdrawal of its FHA approval.

The Mortgagee must submit a copy of the articles of dissolution, a letter describing the acquisition, and, if applicable, how it will or has disposed of FHA Mortgages that it held or serviced.

(b) Duties of Acquiring Entity

(i) Standard

If a non-approved entity is acquiring and dissolving an FHA-approved Mortgagee, the non-approved entity must become an FHA-approved Mortgagee to originate, underwrite, close, endorse, service, purchase,

hold, or sell FHA-insured Mortgages, or to submit claims on FHA Mortgages, including those previously held by the dissolved Mortgagee.

Immediately after becoming approved, the Mortgagee may register each of the dissolved Mortgagee's branch offices that will remain open under the auspices of the acquiring entity and must pay the branch office registration fee(s) for the branch office(s) it chooses to register.

(ii) Required Documentation

An FHA-approved Mortgagee that acquires and dissolves another FHA-approved Mortgagee is required to submit a Change Request to FHA through LEAP.

A non-approved entity must submit an online application for FHA approval containing all information and documentation required to demonstrate eligibility for approval. The entity must also submit with its application a letter signed by a Corporate Officer that describes the acquisition, and, if applicable, the acquiring entity's intentions regarding the dissolved Mortgagee's outstanding portfolio of FHA Mortgages.

(2) Continuation as Subsidiary or Corporate Affiliation

(a) Acquisition by an FHA-Approved Mortgagee

(i) Standard

If the FHA-approved Mortgagee being acquired will continue to operate as a subsidiary or corporate affiliation of the acquiring FHA-approved Mortgagee, the acquired Mortgagee may continue to operate under its existing FHA Lender ID as a separately approved Mortgagee.

(ii) Required Documentation

Acquired FHA-Approved Mortgagee - The acquired Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, informing FHA that it has been acquired and will continue to operate as a subsidiary or corporate affiliation of the acquiring FHA-approved Mortgagee.

Acquiring FHA-Approved Mortgagee - The acquiring FHA-approved Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, that:

- describes the transaction;
- lists the names of all parties;
- lists the FHA Lender IDs of all parties;
- states the date of the acquisition; and

- stipulates that the acquired Mortgagee will continue as a subsidiary or corporate affiliation of the acquiring FHA-approved Mortgagee.

(b) Acquisition by a Non-approved Entity

(i) Standard

If the acquired FHA-approved Mortgagee will continue to operate as a subsidiary or corporate affiliation of the acquiring entity, it may continue to operate as an FHA-approved Mortgagee under its own name, whether or not the acquiring entity becomes FHA-approved.

(ii) Required Documentation

The Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, describing the acquisition and its future operating status.

(B) An FHA-Approved Mortgagee Acquires a Non-approved Entity

(1) Standard

If an FHA-approved Mortgagee acquires a non-approved entity the Mortgagee must notify FHA of the acquisition.

If an FHA-approved Mortgagee acquires a non-approved entity and the acquired entity will operate with a separate EIN as a subsidiary or corporate affiliation of the Mortgagee, the non-approved entity must apply for separate approval in order to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

(2) Required Documentation

If an FHA-approved Mortgagee acquires a non-approved entity the Mortgagee is required to submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, describing the acquisition.

If an FHA-approved Mortgagee acquires a non-approved entity and the acquired entity intends to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages operating with a separate EIN as a subsidiary or corporate affiliation of the Mortgagee, the non-approved entity must submit an online application for FHA approval containing all information and documentation required to demonstrate eligibility for approval. The entity must also submit with its application a letter signed by a Corporate Officer that describes the acquisition.

(C) An FHA-Approved Mortgagee Becomes Independent

(1) Standard

When an FHA-approved Mortgagee that has been a subsidiary or part of a larger entity becomes independent, the Mortgagee must notify FHA of the disassociation.

If the disassociation results in changes to the Mortgagee's Corporate Officers or Principal Owners, the Mortgagee must submit the proper notifications to FHA as described in this Handbook 4000.1.

(2) Required Documentation

When an FHA-approved Mortgagee that has been a subsidiary or part of a larger entity becomes independent, the Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, describing the details of the disassociation.

s. Conservatorship, Receivership, or Transfer of Control (09/14/2015)

The Mortgagee must submit a Change Request to FHA if it goes into conservatorship, receivership, or is subject to a transfer of control to a federal or state supervisory agency.

The Mortgagee must submit a Change Request to FHA of a change of status in any of these situations and FHA reserves the right to require the Mortgagee to submit additional information in order to determine if the Mortgagee is eligible to maintain its FHA Mortgagee approval.

t. Business Name Change (04/18/2023)

The Mortgagee must submit a Change Request to FHA if the Mortgagee changes its legal name and there is no change to the TIN. The Change Request must include the following:

- a letter, signed by a Corporate Officer, describing the change;
- an amendment to its articles of incorporation or Articles of Organization;
- evidence that the change has been approved by the state in which the lender's home office is located; and
- evidence that the change has been processed in NMLS.

u. Unresolved Findings or Sanctions (08/19/2024)

i. Definitions

An Unresolved Finding is a material, adverse written finding, to include fair lending violations of the Fair Housing Act or Equal Credit Opportunity Act, contained in a lawsuit or report produced in connection with an investigation, audit, or review conducted by HUD, another federal, state, or local governmental agency, or by any other

regulatory or oversight entity with jurisdiction over the Mortgagee or its officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, or loan originators, that has not yet been resolved through final agency or judicial action.

A Sanction is any penalty, punitive, or restrictive measure taken either for a failure to comply with or an alleged failure to comply with a court order, federal, state, or local government law, rule, or regulation.

ii. Standard

A Mortgagee must submit a Notice of Material Event to FHA and provide relevant documentation if it or any officer, partner, director, principal, manager, supervisor, loan processor, loan underwriter, or loan originator employed or retained by the Mortgagee is subject to any Unresolved Findings or Sanctions.

A Mortgagee must submit a Notice of Material Event to FHA of a change of status in any Unresolved Finding or Sanction previously reported.

v. Program Approvals (09/20/2021)

The Mortgagee must submit a Change Request to FHA in order to add Title I or Title II program approval to its existing FHA program approval. The Change Request must include an updated QC Plan.

8. Annual Recertification

a. General Requirements (03/14/2016)

i. Standard

(A) Recertification Process

To retain its FHA approval, a Mortgagee must, unless otherwise noted, complete FHA's recertification process on an annual basis.

(B) Filing Deadline

Each Mortgagee must submit its recertification package within 90 Days after the Mortgagee's fiscal year end.

ii. Required Documentation

The Mortgagee must submit its annual recertification package through LEAP. The Mortgagee must submit the following to recertify its FHA approval:

- online certification
- recertification fee
- financial data

A Mortgagee that does not wish to retain its FHA approval must submit a Change Request for voluntary withdrawal of FHA approval.

iii. Exception for Recently Approved Mortgagees

(A) Standard

The Mortgagee is not required to submit audited financial statements or pay the recertification fee if the initial approval date of the Mortgagee is less than six months prior to the end of its fiscal year and the audited financial statements submitted for approval are for the period ending not more than six months prior to the end of its fiscal year.

However, the audited financial statements for the next recertification reporting period must cover the period from the date after the ending date of its audited financial statements submitted for approval to the end of its current fiscal year. The period covered by the renewal audit cannot exceed 18 months.

(B) Required Documentation

At the close of the first, full fiscal year following receipt of FHA approval, the Mortgagee must submit audited financial statements covering the period from the ending date of the financial statements used to obtain initial approval, and ending at the close of the Mortgagee's most recent fiscal year. Mortgagees may not submit financial statements that cover a period of more than 18 months.

b. Online Certification (09/14/2015)

i. Standard

The Mortgagee, through a Corporate Officer, must complete a series of annual certification statements that address the Mortgagee's compliance with FHA requirements over the Certification Period. The Certification Period is the one-year period beginning on the first day of the Mortgagee's prior fiscal year and ending on the last calendar day thereof.

ii. Required Documentation

The certification must be completed through LEAP by a Corporate Officer of the Mortgagee who has been granted the Certifying Official authorization in FHAC.

iii. Unable to Certify

(A) Standard

If a Mortgagee is unable to truthfully certify to one or more of the statements set forth in the online certification, the Mortgagee must not make the particular certification.

(B) Required Documentation

The Mortgagee must submit an explanation for each certification that it is unable to complete. The Mortgagee may submit supporting documentation with its explanation.

If additional information is required as a result of the Mortgagee's explanation, FHA will advise what additional information or documentation is required and provide a due date for the submission of the requested information or documentation.

(C) FHA Review

FHA will review the Mortgagee's explanation and request any additional information or documentation needed to render a final decision regarding the Mortgagee's ability to complete the annual recertification process.

iv. Repercussion of False Certification

If a Mortgagee submits a false certification to FHA, the Mortgagee and its certifying Corporate Officer may be referred for criminal, civil, or administrative actions, as appropriate.

c. Annual Recertification Fee (03/27/2019)

i. Standard

The Mortgagee must pay an annual recertification fee after its online certification has been submitted and accepted. All fee payments must be made electronically. This recertification fee is non-refundable and will not be pro-rated.

ii. Calculation of Fee Amount

The Mortgagee will be assessed a fee for the Mortgagee's home office and for each branch office registered with FHA. Fees are calculated based on the Mortgagee's program approval(s), Mortgagee type, and the number of FHA-approved branch offices as of the last business day of the Mortgagee's Certification Period.

A Mortgagee that is terminating a branch office must do so on or before the last business day of the Certification Period in order to avoid paying the recertification fee for that branch office for the next Certification Period. Mortgagees attempting to terminate a branch office after the last day of their Certification Period will not be permitted to do so until the annual recertification fees have been paid in full.

iii. Exception for Government Mortgagees

Government Mortgagees are not required to pay a recertification fee.

d. Financial Data Submission (03/14/2016)

Supervised, Nonsupervised, and Investing Mortgagees must submit the financial data described below.

i. Small Supervised Mortgagees

A Small Supervised Mortgagee must submit a copy of its Unaudited Regulatory Report, signed by a Corporate Officer, that aligns with its fiscal year end.

ii. Large Supervised, Nonsupervised, and Investing Mortgagees

(A) Audit of Financial Statements

The Mortgagee must comply with the appropriate financial reporting procedures and requirements set forth in the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

(B) Accounting and Auditing Standards

The Mortgagee must have prepared its financial statements in accordance with GAAP and had its audit performed in accordance with the most currently effective Government Accountability Office Generally Accepted Government Auditing Standards (GAGAS), also referred to as the "Yellow Book," and GAAS.

(C) Audit Related Questions

The Mortgagee must submit answers to FHA's Audit Related Questions. FHA's Audit Related Questions address information about the Mortgagee's financial data, the type of audit completed, and any Findings reported.

(D) Independent Public Accountant Attestation

The Mortgagee must submit its recertification package to an Independent Public Accountant (IPA) for review. The IPA must review the Mortgagee's financial data and Audit Related Questions, and complete the Agreed Upon Procedures. The Agreed Upon Procedures address compliance with required audit procedures.

iii. Exception for Government Mortgagees

Government Mortgagees are not required to submit financial information.

e. Rejection of a Mortgagee's Recertification Package (09/14/2015)

FHA may reject a Mortgagee's recertification package due to noncompliance. When this occurs, the Mortgagee must resubmit its financial data, and if applicable, the answers to FHA's Audit Related Questions along with an updated IPA attestation. All documents needed

to cure deficiencies in the Mortgagee's recertification package must be submitted through LEAP.

f. Recertification Extension Requests (03/27/2019)

The Mortgagee may request an extension of its recertification package due date only as the result of a natural or catastrophic event resulting in a disruption of employee or mortgagee business operations. Extension requests must be submitted through LEAP prior to the Mortgagee's recertification package due date.

g. Failure to Recertify (09/14/2015)

A Mortgagee may be referred to the MRB for failing to timely and satisfactorily complete the annual recertification process.

9. Voluntary Withdrawal of FHA Mortgagee Approval (03/27/2019)

A Mortgagee that does not wish to retain its FHA approval must submit a Change Request for voluntary withdrawal of FHA approval.

a. Standard (09/14/2015)

The Mortgagee must satisfy all outstanding payable indemnification debts and Mortgage Insurance Premiums (MIP) and transfer the servicing and ownership of any FHA-insured Mortgages in its portfolio to an FHA-approved Mortgagee prior to its request being approved, and the Mortgagee will remain obligated on any outstanding indemnification agreements.

FHA will not honor a Mortgagee's request to withdraw while there is a pending administrative action or MRB action, or while the Mortgagee has unpaid indemnification claims or unsatisfied settlement agreement obligations owed to HUD.

b. Required Documentation (09/14/2015)

The Mortgagee must submit a Change Request for voluntary withdrawal in the form of a letter, signed by a Corporate Officer, and submitted through LEAP. If applicable, the request must be submitted within 10 business days of the change in the Mortgagee's eligibility status.

c. Reapplication (09/14/2015)

A Mortgagee whose approval is voluntarily withdrawn may re-apply for FHA approval any time after its withdrawal.

10. Voluntary Withdrawal of Title I Lender Contract of Insurance

A Title I Lender that does not wish to retain its Title I Contract of Insurance must submit a Change Request for voluntary withdrawal of its Title I Contract of Insurance.

a. Standard (05/09/2022)

The Title I Lender remains responsible for servicing or selling the Title I Loans that it holds and is authorized to file insurance claims on these Loans, but it cannot otherwise exercise the rights of an FHA-approved Title I Lender.

A Title I Lender cannot obtain insurance coverage for new Title I Loans originated under the terminated Title I Contract of Insurance as of the effective date of termination.

The Title I Lender is not relieved of the liability to pay future insurance premiums or other obligations owed to HUD.

The insurance reserve on Title I Loans previously accepted for insurance is not adversely affected except for Title I Loans involving fraud or misrepresentation.

Insurance Reserves earned by the Title I Lender as of the date of termination, under the terminated Title I Contract of Insurance, remain to its credit unless exhausted by filing of claims.

b. Required Documentation (05/09/2022)

The Title I Lender must submit a Change Request for voluntary withdrawal in the form of a letter, signed by a Corporate Officer, and submitted through LEAP. If applicable, the request must be submitted within 10 business days of the change in the Title I Lender's status.

c. Reapplication (05/09/2022)

A Title I Lender whose Title I Contract of Insurance is voluntarily withdrawn may re-apply for a new Title I Contract of Insurance any time after its withdrawal.

11. Sale of a Beneficial Interest in a Group of Mortgages

a. Definitions (01/31/2026)

Declaration of Trust refers to the agreement(s) describing the beneficial ownership of certain assets and how such assets are to be distributed to the trust beneficiaries.

Sale of a Beneficial Interest refers to the arrangement governing the Mortgagee's sale of a beneficial interest in a group of Mortgages, where the interest to be acquired is related to all the Mortgages as an entirety, rather than an interest in a specific Mortgage.

b. Standard (01/31/2026)

The Mortgagee must ensure the Sale of a Beneficial Interest complies with the following requirements:

- Mortgages may be sold to and held by only an FHA-approved Mortgagee;

- Mortgages may be serviced or sub-serviced by only the Mortgagee or another FHA-approved Mortgagee for servicing; and
- beneficial interest certificates do not provide the certificate holder any interest in individual Mortgages or rights under the related contracts of insurance.

The FHA Commissioner has no obligation under the contract of insurance to deal with any assignee or entity holding a partial interest.

A Mortgagee must receive FHA's approval of the Declaration of Trust for the Sale of a Beneficial Interest before proceeding with the sale.

If the trustee or Mortgage Holder in the Declaration of Trust is in the process of obtaining FHA-approved Mortgagee status, the trustee or purchaser may accept a temporary assignment of the Mortgages that complies with Requirements for Assignment of Mortgages to an Entity Other Than an FHA-Approved Mortgagee.

c. Required Documentation (01/31/2026)

The Mortgagee must submit a Declaration of Trust package to FHA for approval. The package must be submitted as an Ad hoc request through the Lender Electronic Assessment Portal (LEAP) and contain all required documents, demonstrate satisfaction of the Sale of a Beneficial Interest requirements, and include provisions designed to ensure that future transfers, assignments, and pledges of interests in Mortgages will continue to comply with FHA requirements.

i. Transmittal Letter

The Mortgagee must submit a transmittal letter that includes the following:

- all named parties in the Declaration of Trust and their FHA-approved Mortgagee status and number, if any;
- a description of:
  - the Sale of Beneficial Interest;
  - any assignments, transfers, or pledges of interests and any transfers of partial interests in a Mortgage; and
  - the relevant forward Mortgage or Home Equity Conversion Mortgage (HECM) regulation for the Sale of a Beneficial Interest; and
- a list of provisions of the Declaration of Trust satisfying the Declaration of Trust requirements, identifying each provision's section and page number.

ii. Declaration of Trust

The Mortgagee must submit the final, unexecuted version of the Declaration of Trust (e.g., a Trust Agreement) to FHA for review. If it is modeled after a Declaration of Trust approved for a prior Sale of a Beneficial Interest, the Mortgagee must submit a comparison showing all changes made.

The Declaration of Trust must include provisions setting forth the FHA requirements for the following types of transfers.

(A) Sale of a Beneficial Interest

(1) FHA-Approved Mortgagee Requirements

The Declaration of Trust must identify the entity that will be the Purchasing Mortgage Holder.

The Purchasing Mortgage Holder must maintain its FHA approval status at all times.

If the Purchasing Mortgage Holder's approval status is withdrawn or terminated, a new FHA-approved Mortgagee must acquire the Mortgages and maintain its FHA approval status at all times.

(2) Servicer Requirements

The Declaration of Trust must identify the FHA-approved Mortgagee with Title II program approval that will service the Mortgages.

The Servicer, subservicers, or successor servicers must maintain FHA servicing approval.

Servicers must service all Mortgages in accordance with FHA requirements and all applicable laws.

If the Servicer, subservicer, or successor servicer does not maintain its FHA servicing approval, another Mortgagee with FHA servicing approval must be substituted.

(3) Additional Requirements

In the event the Declaration of Trust entity is terminated, dissolved, or otherwise liquidated, any remaining Mortgages must be transferred to an FHA-approved Mortgagee.

Each beneficial interest holder agrees that it has no rights against FHA or HUD with respect to any contract of insurance for the Mortgages in the group and has only a beneficial interest in the group of Mortgages subject to the approved Declaration of Trust to the extent of its terms.

(B) Mortgage Sale

In a Mortgage Sale, Mortgages may be sold only to another FHA-approved Mortgagee.

The Selling Mortgage Holder must notify HUD within 15 Days of the sale using the form required by FHA.

When a Mortgage is sold, the Purchasing Mortgage Holder will succeed to all the rights and become bound by all the obligations of the Mortgagee under the contract of insurance. The Selling Mortgage Holder will not be relieved of its obligation to remit and pay the FHA mortgage insurance premiums until FHA receives the required notice.

(C) Non-Mortgage Sale

(1) Assignment of Mortgages to Another FHA-Approved Mortgagee

For assignment of Mortgages to another FHA-approved Mortgagee that is not a Mortgage Sale:

- the Mortgagee remains the Mortgagee of record; and
- the Commissioner has no obligation to recognize or deal with the assignee Mortgagee.

(2) Assignment of Mortgages to an Entity Other Than an FHA-Approved Mortgagee

For assignment of Mortgages to an entity other than an FHA-approved Mortgagee that is not a Mortgage Sale, in addition to the requirements for Assignment of Mortgages to Another FHA-Approved Mortgagee:

- the assignee must be a corporation, trust, or organization which certifies to the Mortgagee that it has:
  - assets of $100,000 or more; and
  - lawful authority to hold an interest in a Mortgage or a group of Mortgages; and
- the Mortgagee must make the assignment with agreement that the Mortgagee must, within one year from the date of assignment or such additional time as approved by FHA:
  - repurchase the Mortgage; or
  - sell the Mortgage to an FHA-approved Mortgagee.

(3) Partial Transfer of Interest in a Mortgage

For partial transfer of interest in a Mortgage that is not a Mortgage Sale:

- the Mortgagee transferring the partial interest must remain the holder of record and retain a financial interest in the Mortgage;
- the partial interest holder must be:
  - an FHA-approved Mortgagee; or
  - a corporation, trust, or organization which certifies that it has:
    - assets of $100,000 or more; and
    - lawful authority to acquire a partial interest in a Mortgage; and

- the partial interest must be documented in a participation agreement that complies with FHA requirements.

iii. Additional Declaration of Trust Documentation

The Mortgagee must submit the final version of the following Declaration of Trust documentation, if they are part of the transaction:

- Servicing Agreement;
- Subservicing Agreement;
- Custody Agreement;
- Nominee Agreement;
- Participation Agreement; and
- Definition Key: Standard / Key Terms.

FHA may request additional documentation referenced in the Declaration of Trust to complete its review.

If any required documents are amended after submission, prior to or after the sale date, the amendment must comply with all FHA requirements and the submission must be presented prior to execution.

B. OTHER PARTICIPANTS

1. FHA Appraiser Roster

a. Definition (09/14/2015)

Appraiser refers to an FHA Roster Appraiser who observes, analyzes, and reports the physical and economic characteristics of a Property and provides an opinion of value to FHA. An Appraiser's observation is limited to readily observable conditions and is not as comprehensive an inspection as one performed by a licensed home inspector.

b. Standard (09/14/2015)

FHA requires Mortgagees to select qualified, competent, and knowledgeable Appraisers.

FHA maintains a list of qualified Appraisers on the FHA Appraiser Roster. Only an Appraiser on the FHA Appraiser Roster and the Appraisal Subcommittee's (ASC) National Registry may be selected by the Mortgagee to conduct an appraisal for FHA-insured financing.

c. Application and Approval Process (12/23/2025)

i. Eligibility Requirements

(A) General Requirements

For placement on the FHA Appraiser Roster, the appraiser must:

- be a state-certified residential or state-certified general appraiser with credentials based on the minimum licensing/certification criteria issued by the Appraiser Qualifications Board (AQB) of the Appraisal Foundation;
- not be suspended, debarred, or otherwise excluded; and
- not be listed on HUD's Limited Denial of Participation (LDP) List, HUD's Credit Alert Verification Reporting System (CAIVRS), or subject to any current loss of standing or suspension as a certified appraiser in any state.

(B) Competency Requirement

The Appraiser must be knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP) and FHA appraisal requirements. The Appraiser must meet the competency requirements defined in USPAP prior to accepting an assignment. The Appraiser must be knowledgeable in the market where the assignment is located.

(C) Licensing Requirement

The Appraiser must be a state-certified residential or state-certified general Appraiser. The Appraiser must maintain and be able to prove certification in all states in which the Appraiser performs appraisals.

ii. Submitting the Application and Required Documentation

The appraiser must submit applications electronically through FHA Connection (FHAC) and follow the FHA Appraiser Roster Application Instructions.

(A) Form HUD-92563-A, *Application for Roster Personnel Designation*

The appraiser must complete form HUD-92563-A, *Application for Roster Personnel Designation*, online and electronically sign in FHAC.

The appraiser must certify that the appraiser has "read and fully understands and will comply with *FHA Single Family Housing Policy Handbook* (Handbook 4000.1), and *FHA Single Family Housing Appraisal Report and Data Delivery Guide*."

(B) State Certification

The appraiser must provide a PDF image of their current state-issued certification for each state in which the appraiser holds a valid certification. A PDF image of the credential must be uploaded to FHAC with:

- the initial application;
- the addition of any new state credentials; and
- the upgrade of credential levels.

A copy of the current credential is not required for renewals.

(C) Pending or Settled Actions

The applicant must disclose all lawsuits, administrative complaints, Findings, or reports produced in connection with an investigation, audit, or review conducted by HUD, another federal, state, or local governmental agency, or by any other regulatory or oversight entity with jurisdiction over the appraiser, its officers, partners, directors, principals, managers, supervisors, and other agents, that are currently pending or were resolved within two years of the application, including any violations of the Fair Housing Act.

iii. Processing of Application

FHA will review all completed applications for approval to determine if the appraiser complies with all eligibility requirements. If FHA requires additional documentation or clarifying information, FHA may request such additional information and provide the appraiser with a deadline for response. If the appraiser does not submit a completed application or provide the additional information requested by the specified deadline, FHA may deny approval on this basis.

iv. Application Approval

If FHA approves the appraiser's application, the Appraiser's name will appear on the FHA Appraiser Roster.

v. Application Denial

Applicants deemed ineligible for placement on the FHA Appraiser Roster will be notified electronically and provided with the reason(s) for denial.

d. Renewal and Maintenance (12/23/2025)

FHA Appraiser Roster credential records in FHA Connection (FHAC) are automatically validated with the Appraisal Subcommittee's (ASC) National Registry records and may be updated only when ASC records match the renewal expiration date. Failure of the Appraiser to renew in a timely manner may result in the Appraiser becoming ineligible in the state until the renewed licensing information is validated with the ASC National Registry. Appraisers are expected to confirm their renewals have been reported to ASC and updated in the FHA Appraiser Roster. The Appraiser's name in FHAC must match the ASC National Registry exactly to facilitate automated updates.

FHA will invalidate a state credential in FHAC 30 Days past the expiration date in the ASC National Registry. During this period, Appraisers may continue performing FHA assignments only when they have a valid renewal issued from the state with a credential expiration date after the effective date of the appraisal. Any appraisals performed beyond 30 Days from the state license expiration date in FHAC will receive an unsuccessful submission status in the Electronic Appraisal Delivery (EAD) portal.

An inactive Appraiser account may be placed in an archived, read-only status when all of the credentials have expired for at least six months. Appraisers may request reactivation when they have at least one valid state-issued credential by emailing the FHA Resource Center at answers@hud.gov with the following subject line: FHA Roster Appraiser Credential Renewal.

e. Post-approval Requirements (12/23/2025)

Once an Appraiser is approved for placement on the FHA Appraiser Roster, the Appraiser is assigned a unique FHA Appraiser ID in FHA Connection (FHAC).

When completing any FHA assignment, the Appraiser must have a valid appraisal credential and be in good standing on the FHA Appraiser Roster for the state in which the Property is located.

The Appraiser may obtain a CHUMS account for FHAC access and must maintain their personal and business information updated in FHAC. They must also fully conform with Eligibility Requirements and comply with the following requirements and restrictions.

i. Compliance with Law

The Appraiser's performance must comply with all applicable federal, state, and local laws. The Appraiser must adhere to all state and local laws relating to appraisal, licensing, and certification requirements.

ii. Appraiser Competency Requirement

The Appraiser assigned to provide the appraisal must be able to complete an assignment for the property type, assignment type, and geographic location of the subject Property.

The Appraiser must comply with USPAP, including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing.

iii. Communications with Appraisers

An FHA Roster Appraiser must avoid conflicts of interest and the appearance of conflicts of interest. To avoid conflicts of interest and/or the appearance of conflicts of interest, the Appraiser must not be unduly influenced by:

- a member of a Mortgagee's loan production staff or any other person who is compensated based upon the successful completion of a loan; or
- anyone who reports ultimately to any officer of the Mortgagee not independent of the loan production staff and process.

The Appraiser is bound by the confidentiality provisions of USPAP and may not discuss the value or conclusions of the appraisal with anyone other than the Direct Endorsement (DE) underwriter or FHA staff or their representatives. The Appraiser may discuss components of the appraisal that influence its quality and value with the DE underwriter who has responsibility for underwriting the case.

The Appraiser may interact with real estate agents and others, during the normal course of business, to provide property access, information and other market data.

iv. Appraisal Fees

The Appraiser and the Mortgagee or Mortgagee-designated third party will negotiate the appraisal fees and due date. FHA does not establish appraisal fees or due dates.

v. Obligation to Report to FHA

(A) Professional Appraisal Organizations

The Appraiser may be a member or hold designations in professional appraisal organizations. If the Appraiser is a member, candidate or associate of an appraisal organization, the Appraiser must report, by calling 1-800-CALLFHA (1-800-225-5342) or sending an email to answers@hud.gov, any adjudicated actions resulting in a disciplinary action, or the suspension of the Appraiser, to FHA within 14 Days of

such action. On disposition or adjudication of the action, the Appraiser must provide FHA with documentation and official Findings.

FHA may consider sanctions, including removal of an Appraiser found guilty of professional misconduct as adjudicated by a professional appraisal organization.

(B) Safeguards for Appraiser Independence

The Appraiser must report attempts to influence independence to answers@hud.gov or by calling 1-800-CALLFHA (1-800-225-5342). In addition, the appraiser must report the attempts to HUD OIG Hotline (1-800-347-3735). Mortgagees, Appraisal Management Companies (AMC) and third parties are prohibited from influencing the independence of the Appraiser and the valuation process. Prohibited acts and attempts to influence the results of an appraisal include the following:

- withholding or threatening to withhold timely payment or partial payment for an appraisal report;
- withholding or threatening to withhold future business from an Appraiser, or demoting, terminating or threatening to demote or terminate an Appraiser;
- making expressed or implied promises of future business, promotions or increased compensation for an Appraiser;
- conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- requesting that an Appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- providing the Appraiser with an anticipated, estimated, encouraged or desired value for a subject Property, or a proposed or target amount to be loaned to the Borrower, except for a copy of the sales contract for purchase and any addendum, which must be provided;
- providing the Appraiser, appraisal company, AMC or any entity or person related to the Appraiser, with stock or other financial or nonfinancial benefits;
- allowing the removal of an Appraiser from a list of qualified Appraisers or the addition of an Appraiser to an exclusionary list of qualified appraisers, used by any entity, without prompt written notice to the Appraiser that includes written evidence of the Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior or other substantive reason for removal;
- ordering, obtaining, using, or paying for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a mortgage financing transaction, unless:
    - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file; or

- such appraisal or AVM was completed pursuant to a written, preestablished bona fide pre- or post-funding appraisal review, quality control process or underwriting guidelines and the Mortgagee adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; and

- any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, impartiality or violates law or regulation, including, the Truth in Lending Act (TILA), Regulation Z and USPAP.

(C) Roster Appraiser Administrative Responsibilities

The FHA Roster Appraiser has the administrative responsibility to keep their personal and business information up to date via FHA Connection (FHAC). The FHA Roster Appraiser's contact information must include their mailing address, phone number, and email address. The FHA Roster Appraiser's credentials must be current before completing an appraisal for FHA.

2. 203(k) Consultants

a. Definition (11/07/2023)

203(k) Consultant refers to a person approved and active in the FHA 203(k) Consultant Roster, who, when engaged by a Mortgagee, conducts a personal on-site inspection of the Property to conduct Consultant functions in the 203(k) program.

b. 203(k) Consultant Roster (11/07/2023)

The Standard 203(k) Rehabilitation Mortgage program requires the use of an FHA-approved 203(k) Consultant. FHA maintains a list of qualified Consultants on the FHA 203(k) Consultant Roster. Only a Consultant in active status on the Roster may be selected by the Mortgagee to conduct Consultant functions in the 203(k) program.

c. Application and Approval Process (04/10/2025)

i. Eligibility Requirements

(A) Standard

To become an approved 203(k) Consultant, the prospective Consultant must be able to perform all duties outlined in 203(k) Consultant Requirements and fully understand the requirements of the 203(k) Rehabilitation Mortgage Insurance Program. The prospective Consultant must meet the qualifications for one or more of the following:

- be a state-licensed architect;
- be a state-licensed engineer;
- have at least three years of experience as a remodeling contractor or general contractor; or
- have at least three years of experience as a home inspector.

The prospective Consultant must not be listed on:

- the General Services Administration's (GSA) System for Award Management (SAM);
- HUD's Limited Denial of Participation (LDP) List; or
- HUD's Credit Alert Verification Reporting System (CAIVRS).

(B) Required Documentation

(1) Narrative Description

The prospective Consultant must submit a narrative demonstrating that they fully understand the requirements of HUD's 203(k) Rehabilitation Mortgage Insurance Program, and describing their ability to:

- conduct Feasibility Studies;
- review or prepare architectural exhibits;
- prepare a Work Write-Up and Cost Estimate;
- complete draw request inspections; and
- prepare Change Order requests.

(2) Location and Eligibility

The prospective Consultant must indicate the states in which they will be doing business and provide Consultant Eligibility Requirement documentation for each state. If the prospective Consultant will be doing business in more than one state, the Consultant must identify the state in which the Consultant will perform the majority of their business.

(3) State Licenses

(a) State-Licensed Architect

The prospective Consultant must submit proof of current license.

(b) State-Licensed Engineer

The prospective Consultant must submit proof of current license.

(c) Home Inspector

The prospective Consultant must submit:

- proof of current license if the applicant is located in a state, county, or other local jurisdiction that requires the licensing of home inspectors to perform the duties of a 203(k) Consultant; or
- if a current license is not required, a narrative description of their experience.

For the purposes of this requirement, FHA considers "located" to mean "doing business," and "license" to mean "license, certificate, registration, or approval."

(d) Remodeling or General Contractor

The prospective Consultant must submit:

- proof of current license if the applicant is located in a state, county, or other local jurisdiction that requires the licensing of contractors; or
- if a current license is not required, a narrative description of their experience.

For the purposes of this requirement, FHA considers "located" to mean "doing business," and "license" to mean "license, certificate, registration, or approval."

(4) Certification for Placement and Retention on the 203(k) Consultant Roster

Consultants and prospective Consultants must submit a 203(k) Consultant Roster Certification on their letterhead.

ii. Submitting the Application

The application documents must be submitted as email attachments to the FHA Resource Center at answers@hud.gov.

Applications must include in the subject line: 203(k) Consultant Application Documents.

iii. Incomplete Application

An applicant who submits an incomplete application package will receive notification indicating the information required to cure the deficiency. This notification letter will give the applicant 15 Days from the date on the letter to correct any deficiencies. If the applicant does not satisfy the outstanding requirement in its entirety and within the prescribed deadline, the approval will be denied and the applicant must wait an additional 90 Days before re-applying.

iv. Application Approval

FHA will inform the applicant if they are approved for placement on the FHA 203(k) Consultant Roster. The approval will be valid for a two-year period from the date of initial approval. When the Consultant is placed on the Roster, they will be given a recertification due date.

Inclusion of a Consultant on the Roster means only that the Consultant has met the qualifications. It does not create or imply a warranty or endorsement by FHA of the Consultant, nor does it represent a warranty of any work performed by the Consultant.

Consultant Identification Number

Each prospective Consultant who is approved will be provided a Consultant Identification (ID) number and will be informed of their recertification due date. The Consultant ID number is required prior to doing any Consultant work associated with any 203(k) Mortgage and must be included on all documents that require the Consultant's signature.

v. Application Denial

Applicants deemed ineligible for placement on the FHA 203(k) Consultant Roster will be informed they are not approved for placement on the Roster and the reason the applicant has not met the qualifications. To request placement on the Roster, the applicant must submit a new application after resolving any issues.

vi. Biennial Recertification

To retain placement on the FHA 203(k) Consultant Roster, the Consultant must recertify every two years. The FHA 203(k) Consultant candidate will receive email notification of an approved application with the recertification due date, which is two years from the application approval date. When the FHA 203(k) Consultant successfully completes recertification, they will receive a similar email notification with the next recertification due date. The FHA 203(k) Consultant can view the recertification due date on the 203(k) Consultants List page.

The Consultant is required to recertify that they are still in compliance with all laws, regulations, licensing, certification, registration, or other approval requirements that govern their ability to perform as a 203(k) Consultant in the states where they do business.

Consultants must submit the required updated certification and attachments by email to the FHA Resource Center at answers@hud.gov. The subject line must read: 203(k) Consultant Recertification.

203(k) Consultants who fail to meet the recertification requirements will be removed from the FHA 203(k) Consultant Roster. To request reinstatement on the Roster, the Consultant must submit a new application after resolving the issue.

3. Direct Endorsement Underwriters

a. Program Overview (03/14/2016)

The Direct Endorsement (DE) underwriter serves as the Mortgagee's subject matter expert for underwriting and must ensure compliance with all underwriting requirements in Origination through Post-closing/Endorsement for all manually underwritten Title II Forward Mortgages. Underwriting responsibilities include, but are not limited to, the following:

- calculation of maximum mortgage amounts;
- underwriting the Property; and
- underwriting of the Borrower.

The DE underwriter must also ensure compliance with all requirements for Underwriting the Property for all Title II Forward Mortgages underwritten using the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard.

The DE underwriter also serves as the Mortgagee's subject matter expert on the financial assessment requirements in Origination through Post-closing/Endorsement for all Home Equity Conversion Mortgages (HECM). Financial assessment requirements include, but are not limited to, the following:

- underwriting of the Property;
- analysis of the Borrower's credit history;
- analysis of the Borrower's property charge payment history;
- calculation of residual income; and
- determination of the need for and the amount of a Life Expectancy (LE) Set-Aside.

b. Direct Endorsement Underwriter Eligibility (06/27/2025)

i. Eligibility Requirements

The DE underwriter must meet the following requirements:

- have either a minimum of:
  - three years experience reviewing credit applications and one- to four-unit property appraisals, within the past five years; or
  - two years experience reviewing credit applications and one- to four-unit property appraisals, within the past three years, combined with an additional three years of such experience within the past ten years; and
- be an employee of a single Mortgagee; and
- be authorized to bind the Mortgagee in matters involving origination of mortgages.

ii. Ineligible Participants

The DE underwriter **must not** be:

- listed on the General Services Administration's (GSA) System for Award Management (SAM) or currently subject to a suspension, debarment, Limited

Denial of Participation (LDP), or other restriction imposed under Part 24 of Title 24 of the Code of Federal Regulations, Part 180 of Title 2 of the Code of Federal Regulations as implemented by Part 2424 of Title 2, or any successor regulations to such parts, or under similar provisions of any other federal or state agency;

- under indictment for, or have been convicted of, an offense that reflects adversely upon the underwriter's integrity, competence or fitness to meet the responsibilities of a DE underwriter;
- subject to any Unresolved Findings made specifically against the underwriter as the result of any HUD or other governmental investigation or audit;
- engaged in business practices that do not conform to generally accepted practices of prudent underwriters or that demonstrate irresponsibility;
- convicted of, or have pled guilty or *nolo contendere* to, a felony related to participation in the real estate or mortgage industry:
  - during the seven-year period preceding the date of registration in FHA Connection (FHAC); or
  - at any time preceding the date of registration in FHAC, if such felony involved an act of fraud, dishonesty, or a breach of trust, or money laundering; or
- in violation of provisions of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) (12 U.S.C. § 5101 et seq.) or its equivalent under state law, including all Nationwide Mortgage Licensing System and Registry (NMLS) requirements.

Additionally, the DE underwriter must not have Conflicts of Interest.

c. Mortgagee's Approval Process (03/14/2016)

The Mortgagee must register each of its underwriters in FHAC. By registering an underwriter in FHAC, the Mortgagee certifies that they meet the necessary qualifications described above.

d. Post-approval Requirements (03/14/2016)

The Mortgagee must complete a series of annual certification statements that include the Mortgagee's review of underwriter compliance with eligibility requirements.

4. Nonprofits and Governmental Entities

a. Program Overview (01/24/2022)

FHA requires all nonprofits to obtain approval and be placed on the HUD Nonprofit Roster to participate in FHA's Single Family nonprofit programs.

Nonprofits participating in one of FHA's nonprofit programs must serve Low- to Moderate-Income individuals or families. Low- to Moderate-Income individuals or families refer to individuals or families whose household income does not exceed 115 percent of the median

income for the area when adjusted for family size. FHA may approve a higher percentage of up to 140 percent. A request must be submitted to the FHA Resource Center at answers@hud.gov.

i. Types of Single Family Nonprofit Programs

(A) HUD Homes

(1) Discounted Purchase

Governmental Entities and HUD-approved Nonprofits are permitted to purchase homes from HUD at a discount.

(2) Exclusive Listing Period

Governmental Entities and HUD-approved Nonprofits are permitted to purchase Properties, without a discount, during the exclusive listing period for owner occupant purchasers.

(B) FHA Mortgagor

Governmental Entities and HUD-approved Nonprofits are eligible for certain FHA-insured programs under the same provisions as owner occupants.

HUD-approved Nonprofits are still required to obtain credit qualification from a Mortgagee for each Mortgage originated, and each Mortgage must be underwritten in accordance with Underwriting Nonprofit Borrowers (Manual).

(C) Secondary Financing

Governmental Entities and HUD-approved Nonprofits may provide secondary financing assistance to homebuyers utilizing FHA insurance on a first Mortgage when that assistance is secured with a second Mortgage or lien.

Additional information on Secondary Financing can be found in the Origination through Post-closing/Endorsement section.

ii. Entities Requiring Approval to Participate in FHA Nonprofit Programs

(A) Nonprofits with 501(c)(3) Tax-Exempt Status

A nonprofit organization must have 501(c)(3) Internal Revenue Service (IRS) tax-exempt status.

When a nonprofit closes secondary financing in its own name, that nonprofit is required to be both FHA approved and placed on the HUD Nonprofit Roster even if the secondary financing will be held by the Governmental Entity.

(B) Nonprofit Instrumentalities of Government

(1) Definitions

A Nonprofit Instrumentality of Government (NPIOG) refers to a 501(c)(3) organization that was established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated as an instrumentality by law (statute or court opinion). FHA requires the unit of government that established the nonprofit to exercise Organizational Control, Operational Control, or Financial Control of the nonprofit in its entirety or, at minimum, the specific homebuyer assistance program that is using FHA's credit enhancement.

Organizational Control refers to the majority of the governing board and/or Principal Officers that are named or approved by governmental body/officials.

Operational Control refers to the requirement that the government body approves all major decisions and/or expenditures.

Financial Control refers to the requirement that the government body provides funds through direct appropriations, grants, or Loans, with related controls applicable to all activities of the entity.

HUD-approved NPIOGs will be included on FHA's Nonprofit Organization Roster.

(2) Permitted Level of Secondary Financing Assistance

FHA may approve an NPIOG to provide secondary financing for as much as 100 percent of the Borrower's Minimum Required Investment (MRI). If approved, FHA will issue the NPIOG an approval letter, and this approval will be reflected on the FHA Nonprofit Organization Roster and in FHAC. Interested parties should check the Roster to ensure the approval status of an NPIOG.

(C) Section 115 Entities with 501(c)(3) Status

Section 115 entities with 501(c)(3) status must meet the eligibility and application requirements for the HUD Homes and FHA Mortgagor programs.

iii. Entities Not Requiring FHA Approval to Participate in FHA Nonprofit Programs

FHA approval and placement on the HUD Nonprofit Roster are not required for federal, state, or local government agencies or their instrumentalities, provided those entities are not organized as 501(c)(3) nonprofits.

(A) Governmental Entities and their Instrumentalities of Government

Governmental Entity refers to any federal, state, or local government agency or instrumentality. To be considered an Instrumentality of Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion). HUD deems Section 115 entities, as identified in Section 115 of the Internal Revenue Code, to be Instrumentalities of Government for the purpose of providing secondary financing.

FHA does not maintain a list of Governmental Entity program participants.

(B) Nonprofits with a Documented Agreement to Support Secondary Financing

When a Governmental Entity uses a nonprofit to assist in the operation of the Governmental Entity's secondary financing assistance programs, FHA approval and placement on the HUD Nonprofit Roster are not required so long as there is a documented agreement indicating (1) the functions performed include the Governmental Entity's secondary financing program and (2) the secondary financing legal documents (e.g., Note and deed of trust) name the Governmental Entity as the Mortgagee.

Governmental Entities that have nonprofits close the secondary financing in the name of the nonprofit must verify that the nonprofit is both FHA approved and on the HUD Nonprofit Roster.

Refer to Prohibited Sources of Minimum Cash Investment Under the National Housing Act - Interpretive Rule for additional guidance and clarification on the provision of downpayment assistance through secondary financing.

(C) Section 115 Entities

Section 115 entities, as identified in Section 115 of the Internal Revenue Code, do not require approval to participate in FHA's Nonprofit secondary financing program. Section 115 entities are not required to have voluntary board members. FHA considers entities that have both 501(c)(3) and Section 115 status to be Instrumentalities of Government for purposes of secondary financing only.

iv. Ineligible Participants

The nonprofit or any officer, partner, director, principal or employee must not be:

- suspended, debarred, excluded from participation in FHA programs as listed in a Limited Denial of Participation (LDP), System for Award Management (SAM) Excluded Parties List, or Credit Alert Verification Reporting System (CAIVRS), or otherwise excluded by similar procedures of any other federal or state agency;
- indicted for, or convicted of, an offense which reflects upon the responsibility, integrity, or ability of the nonprofit to participate in FHA activities;

- subject to Unresolved Findings as a result of HUD or other governmental investigation, audit, or review; or
- engaged in business practices that do not conform to generally accepted practices of prudent nonprofits or that demonstrate irresponsibility.

These requirements apply at the time that the nonprofit applies for approval and at all times while it is a HUD-approved Nonprofit.

b. Application and Approval Process (11/10/2026)

i. Initial Contact

Prospective applicants must submit an email to the FHA Resource Center at answers@HUD.gov identifying the nonprofit program(s) that the applicant would like to participate in. Prospective applicants must also identify the state where the program activities will take place.

ii. Submitting the Preliminary Information

The prospective applicant must submit the following information via email to the point of contact:

- the nonprofit's legal name and physical address of the main office;
- the name, phone number, and email address of the Executive Director;
- the name, title, phone number, and email address for all staff members requesting system access for application and reporting;
- the effective date of the nonprofit's 501(c)(3) tax-exempt status as reflected in the IRS Letter of Determination;
- the nonprofit's federal Employer Identification Number (EIN);
- the FHA nonprofit program(s) for which the nonprofit is seeking approval;
- indication of whether or not the nonprofit is an Instrumentality of Government; and
- confirmation that the nonprofit has two years of relevant housing experience within the last five years.

iii. Eligibility Requirements

A Complete Nonprofit Application refers to an application that satisfies all General Application Requirements and all program-specific application requirements for the programs in which the nonprofit seeks approval.

In those instances when a nonprofit is applying to more than one program and the program-specific application requirements request duplicate information, the nonprofit is only required to submit this information once.

A Complete Nonprofit Application must be submitted and approved in order for a nonprofit to participate in any one of FHA's nonprofit programs.

(A) General Application Requirements

Nonprofit applicants must satisfy all of FHA's general application requirements whether they are applying to one or all of FHA's nonprofit programs.

All certifications within the application must include the following language:

WARNING: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

(1) IRS Tax-Exempt Status

(a) Standard

The nonprofit must have an effective date of exemption, as indicated by the IRS Letter of Determination, of at least two years prior to the FHA nonprofit application date.

(b) Required Documentation

(i) IRS Letter of Determination

The nonprofit must submit the IRS Letter of Determination verifying approval under Section 501(c)(3) as exempt from taxation under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended.

(ii) Employer Identification Number

The nonprofit must provide its EIN and any subsidiary organization's EIN. Nonprofits may not assume the name and EIN of another dormant or defunct nonprofit.

(iii) Certification

The nonprofit must submit a document signed by an authorized representative of the nonprofit certifying the following:

- the nonprofit's approval for tax exemption has not been modified or revoked by the IRS;
- the program activities for which the nonprofit seeks FHA approval to participate in are consistent with the activities and purposes for which the IRS granted tax-exempt status; and
- the nonprofit has notified the IRS of any substantial and material changes in its character, purpose, or methods of operation.

(2) Board of Directors and Employees

(a) Standard

Voting members of the nonprofit's Board of Directors must serve in a voluntary capacity and cannot receive compensation for any service they provide in implementing the nonprofit's Affordable Housing Program (AHP) for which they are seeking HUD approval. Directors may receive reimbursement for expenses.

The nonprofit must operate in a manner so that no part of its net earnings is passed on to any individual board member, corporation, or other entity affiliated with a board member. Board members cannot be employees of the nonprofit.

The occupational activities and obligations of board members cannot conflict with the work of the nonprofit.

It is a conflict of interest for a nonprofit to employ staff who also work for and receive financial benefits from an entity that is providing the nonprofit with services.

(b) Required Documentation

(i) Voluntary Board Certification

The nonprofit must submit a certification signed by an authorized representative of the nonprofit agency confirming that the Board of Directors serves in a voluntary capacity.

(ii) Board of Directors Information

FHA requires information on the job responsibilities of all board members to ensure that their occupational activities and obligations do not conflict with the work of the nonprofit and for compliance with Ineligible Participants requirements.

The nonprofit must provide the following information for each board member:

- name, board position, length of board term including expiration, and whether member is permitted to vote;
- Social Security Numbers (SSN) for all voting board members; and
- name of current employer, job title, nature of business, and job responsibilities.

The FHA Nonprofit Leadership Worksheet may be used, but is not required to be used, to comply with this section.

(3) Principal Management

(a) Definition

Principal Management and Staff Members refer to those who direct the activities of the organization and are responsible for organizational finances. This includes, but is not limited to, Executive Director/President or Vice President, Project/Program Director, or similar position.

(b) Standard

(i) Conflict of Interest

Nonprofits must ensure that no conflicts of interest exist between their Boards of Directors, principal management, or any other entities that may participate in operating their AHP.

It is a conflict of interest for a nonprofit to employ staff who also work for and receive financial benefits from an entity that is providing the nonprofit with services related to the nonprofit's Affordable Housing Program (AHP).

(ii) Staff Experience

Principal management must have experience in developing and administering housing programs. Hiring of experienced staff does not relieve the nonprofit agency of the Relevant Experience requirements.

(c) Required Documentation

Nonprofits must provide the following information for principal management to ensure that no conflict-of-interest relationships exist, as well as no sanctions, foreclosures, inappropriate transfers of Real Property, or Business Relationships. FHA will also review the information collected for compliance with the Ineligible Participants requirements and to ensure that principal management have the requisite experience.

For each principal management member, the nonprofit must provide:

- name and SSN;
- job title within the nonprofit, job responsibilities within the nonprofit, and length of time in position; and
- relevant former employers, address of former employer, related job responsibilities, and years in position.

The FHA Nonprofit Leadership Worksheet may be used, but is not required to be used, to comply with this section.

(4) Relevant Experience

(a) Definitions

Relevant Experience for HUD Homes refers to the acquisition, rehabilitation, and resale or new construction of five Single Family Properties.

Relevant Experience for the FHA Mortgagor Program refers to the housing development or property management of Single Family Properties.

Relevant Experience for Secondary Financing refers to the experience of operating a mortgage lending program or a secondary financing program as evidenced by five transactions.

(b) Standard

The nonprofit must have a minimum of two years of relevant experience within the last five years.

The hiring of experienced staff does not relieve the nonprofit agency of the relevant experience requirements.

Exception

A nonprofit that does not meet this experience requirement may be able to obtain limited approval if it has at least one year of relevant experience as defined above and one year of other related housing experience. The nonprofit's "other related housing experience" must demonstrate that the organization has the financial and administrative capacity to finance, purchase, rehabilitate, or resell homes, or provide downpayment assistance to serve Low- to Moderate-Income individuals or families.

(c) Required Documentation

After the preliminary information has been accepted and the nonprofit is granted permission to complete the application, the nonprofit must submit a brief narrative describing its relevant housing experience. In addition, the nonprofit must provide:

- for the FHA Mortgagor and HUD Homes programs, details of past transactions including property address, acquisition date, loan amount, rehabilitation, date sold, and any delinquency. Transactions must span the period of relevant experience; or
- for the FHA secondary financing program, a list of past first lien mortgage loans and/or secondary financing loans including loan amounts, transaction dates, and addresses of the properties financed. Transactions must span the period of relevant experience.

(5) Delegation of Signature Authority

Required Documentation

The nonprofit must provide organizational resolutions delegating signature authority to sign loan applications and/or sales contracts on behalf of the organization. These resolutions must be signed and dated by the appropriate persons under applicable state law, the Articles of Organization, and other governing documents.

(6) Articles of Organization and Bylaws

(a) Standard

The nonprofit's mission statement, purpose, or goals stated in the nonprofit's Articles of Organization and bylaws must be consistent with those submitted in the application.

(b) Required Documentation

(i) Conformed Copy

The nonprofit must submit a Conformed Copy of its Articles of Organization, and bylaws if applicable. These documents must be signed and dated by the appropriate persons under applicable state law.

A Conformed Copy is a copy that agrees with the original and all amendments to it.

(ii) Written Declaration

A Conformed Copy of the Articles of Organization and bylaws must be accompanied by a written declaration signed by an authorized representative of the organization certifying the copy is a complete and accurate copy of the document.

As an alternative to the foregoing declaration, an organization may submit a Conformed Copy of its Articles of Organization approved and dated by the appropriate state authority.

(7) Quality Control Plan

(a) Standard

The nonprofit must have a Quality Control (QC) Plan that explains the organization's internal and external audit and monitoring procedures.

(b) Required Documentation

The nonprofit must provide a copy of the QC Plan that, at a minimum, includes the following elements:

- their system for maintaining records of QC Findings and actions;
- the process by which periodic reports that identify deficiencies are provided to senior management;
- the process by which prompt corrective measures are taken and documented by senior management, including time frames and any training provided when deficiencies are identified; and
- procedures to report any violation of law or regulation, any known false statement, fraud or program abuse to HUD, the HUD Office of Inspector General (OIG) and the appropriate federal, state or local law enforcement agency.

Although not required, nonprofit agencies are encouraged to include the following elements in their QC Plan:

- an impartial third-party entity to conduct QC reviews on the nonprofit agencies' activities;
- procedures for expanding the scope of the QC review when fraud or patterns of deficiency may exist;
- procedures to identify revisions in FHA guidelines and inform staff of those revisions; and
- procedures to hold nonprofit staff accountable for performance failures or errors.

(8) Administrative Capacity

(a) Standard

The nonprofit must demonstrate the capability to develop and carry out its homeownership program, as described in the nonprofit's AHPP, in a reasonable time frame and a successful manner.

Based on the level of administrative capacity, FHA may limit the number of Properties purchased at a discount and Mortgages insured by FHA.

(b) Required Documentation

The nonprofit must provide a narrative describing its past experience, if any, in acquisition, rehabilitation, property sales, downpayment assistance, Single Family mortgage lending, housing counseling, and administration of a homeownership program or other AHPs.

(9) Financial Capacity

(a) Standard

The nonprofit must have the financial capacity to operate its homeownership program. FHA will assess the nonprofit's financial stability in terms of cash balances, assets and liabilities, annual expenses, and cash flow from operations.

Based on an analysis of submissions, FHA may limit the number of Properties a nonprofit may purchase at a discount and purchase with FHA-insured financing.

(b) Required Documentation

Documentation requirements differ based on the amount of a nonprofit's expended federal award, as defined by the Office of Management and Budget.

(i) Expended Federal Awards of $1,000,000 or More

The nonprofit must submit the two most recent year-end audited financial statements, profit and loss statements, and balance sheets. The audited financial statements must be provided by the applicant's Independent Public Accountant (IPA) certifying that the nonprofit:

- maintains internal controls over federal awards;
- complies with applicable laws, regulations, and contract or grant provisions; and
- prepares appropriate financial statements.

The nonprofit must also submit the most recent quarterly financial statements along with certification from a Certified Public Accountant (CPA) or other financial professional attesting that the information accurately represents the financial condition of the nonprofit agency.

(ii) Expended Federal Awards Less than $1,000,000

Nonprofits must submit two years of audited or unaudited financial statements, prepared in accordance with Generally Accepted Accounting Principles (GAAP) and reporting practices, and must include:

- an auditor's review report, if available;
- a treasurer's report; and
- any supplemental schedules.

The nonprofit must also submit the most recent quarterly financial statements along with certification from a CPA or other financial professional attesting that the information accurately represents the financial condition of the nonprofit agency.

The nonprofit must document and provide proof of the current source of operating funds and the long-term stability of these funding sources, which may include funding from governments, private entities, foundations, or other organizations.

There must not be any identity of interest between the capital provider and a nonprofit's Board of Directors or principal management.

(10) Other Business Partners

(a) Standard

A nonprofit agency must demonstrate that it maintains control over its homeownership program and cannot rely upon a business partner(s) to operate the program for which it seeks FHA approval.

(b) Required Documentation

The nonprofit must identify other business partners, such as real estate agents, Mortgagees, rehabilitation contractors and consultants providing administrative, financial, and management services. The nonprofit must identify the company by name and list staff with whom the nonprofit will work.

The nonprofit must explain the nature and cost of the services and how the nonprofit exercises control over its business partners.

(11) Consultant Services

(a) Standard

The nonprofit's operations must be independent of the influence, control, or direction of the consultant or any other outside party, particularly those seeking to derive profit or gain from a proposed project (including landowners, real estate brokers, bankers, contractors, builders, or consultants). Consultant services must be provided on an arm's length basis.

Consultant services – administrative, management, financial, or otherwise – provided under an independent contractor relationship (as opposed to an employer-employee relationship) must not constitute more than half of the nonprofit's activities throughout the duration of the approval period. This measurement will be calculated by evaluating the ratio of nonprofit staff to contracted or consultant staff; the ratio of hours devoted to the implementation of the AHP by nonprofit staff versus contracted or consultant staff; and the funds devoted to paying nonprofit staff compared to those paying contracted or consultant staff. The nonprofit must have the in-house resources and

capacity to operate its own programs, and contract for services only on a temporary and supplementary basis.

(b) Required Documentation

The nonprofit must explain the nature and cost of its consultant services and how the nonprofit exercises control over consultants; describe the work that will be performed by consultants for each program; and provide the percentage of work performed by consultants for each program.

The nonprofit must provide a disclosure and supporting documentation related to any agreements with other parties that may derive financial gain through the homeownership program. The disclosure must identify the name of the business entity, the individuals from the company who will be working with the nonprofit, the terms of the relationship, and how the party will be compensated.

(12) Acting on Own Behalf Certification

The nonprofit must provide a certification signed by an authorized representative of the organization stating the following:

I certify that (Name of Nonprofit agency) is acting on its own behalf and is not under the influence, control, or direction of any party seeking to derive a profit or a gain from the proposed project, such as, but not limited to, a landowner, real estate broker, banker, contractor, builder, lender, or consultant.

WARNING: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

The certification must include the date, and the authorized representative's printed name, signature, and title.

(13) FHA Approval Letter

If previously approved by FHA to participate in FHA's nonprofit programs, the nonprofit must submit a copy of its most recent approval letter.

(14) Adequate Facilities

(a) Standard

Nonprofits are required to have an adequate main office space in a designated physical location where the nonprofit manages its operations, meets with clients, distributes information, and renders services to the public.

The nonprofit must not share its office space, general reception area, entrance, or lobby with any entity with whom the nonprofit has a conflict of interest.

The office space must be clearly defined for the public and include a permanent and prominently displayed sign.

(b) Required Documentation

The nonprofit must submit the contact information and physical address of the agency's main office and submit proof of the physical location. HUD may request additional information, like floor plans, photographs, or billing statements that include the physical address, to confirm the validity of the office space and that it meets requirements.

(15) Lending Partner(s) Information

(a) Standard

A nonprofit must ensure that no conflicts of interest exist. Employees of the Lender cannot receive personal or financial benefit because of the Business Relationship with the nonprofit.

(b) Required Documentation

The nonprofit must provide the name, address, and contact of any lending institution, bank, or private party that has provided financing to the nonprofit.

(16) Affordable Housing Program Plan

(a) Definition

An Affordable Housing Program Plan (AHPP) refers to an approved plan that is a narrative describing a nonprofit's plans to implement the Single Family nonprofit program(s) for which it is approved. The AHPP addresses how the nonprofit intends to provide affordable homeownership opportunities for Low- to Moderate-Income buyers by financing, purchasing, rehabilitating, and/or reselling homes to eligible buyers.

(b) Standard

The nonprofit must submit the AHPP as part of its application for approval. The nonprofit must address the general AHPP requirements and any program-specific AHPP requirements for each program for which it seeks approval. The nonprofit must submit a copy of the AHPP as part of their application to FHA. The nonprofit must adhere to the AHPP during the entire approval period.

After approval, if the nonprofit seeks to expand the geographic area where it conducts its program or expand or modify its AHPP, the nonprofit must update the AHPP to include the new geographic area and submit an updated AHPP to the FHA Resource Center at answers@hud.gov with "Revised AHPP" in the subject line for approval.

(c) AHPP Requirements

The AHPP must address all general AHPP requirements and any program-specific AHPP requirements for each program for which the nonprofit seeks approval.

The general AHPP must:

- explain how the nonprofit intends to operationalize the program(s) for which it seeks approval;
- describe the geographic area and provide the city, county, state, and zip codes where the nonprofit plans to administer its program(s). The program(s) must be operated within the geographic area specified by the AHPP. The AHPP must describe the nonprofit's ability to execute its program throughout the geographic area in which it plans to operate;
- provide an overview of the target population or community needs and challenges of the geographic area in which the nonprofit plans to operate, including the homeownership needs of the community, and describe the demographics of the community, including racial composition, income, and household size;
- address how Low- to Moderate-Income individuals and families will benefit from participation in the program and how the nonprofit will locate the Low- to Moderate-Income individuals and families to participate;
- explain how the nonprofit will transition Low- to Moderate-Income individuals and families into homeownership;
- describe the type of homeownership counseling the nonprofit will provide to prospective homebuyers, if any; and
- describe how the nonprofit will serve non-English speaking populations and clients with disabilities.

(i) Program-Specific AHPP Requirements for HUD Homes and FHA Mortgagor

If the nonprofit is applying for approval for HUD Homes or the FHA Mortgagor program, the nonprofit must also provide in its AHPP:

- a general timeline or workflow for purchasing, rehabilitating, and selling properties the nonprofit intends to purchase;
- the number of properties the nonprofit expects to purchase under the program; and

- a copy of the lease purchase agreement, if applicable, and a description of the program, including how the nonprofit will transition renters to homeowners, how rent will be collected and applied, and if repair reserves will be used to minimize repair costs after purchase.

(ii) Program-Specific AHPP Requirements for Secondary Financing

If the nonprofit is applying for approval for the secondary financing program, the nonprofit must also provide in its AHPP:

- a program overview with a description of the secondary financing program, including eligibility requirements, restrictions on transferability and owner occupancy, and equity sharing, if applicable;
- a characterization of all fees and amounts charged to the Borrower and whether they will be part of the secondary lien;
- the number of secondary financing loans the nonprofit agency expects to provide per year;
- a description of how the nonprofit will maintain control and oversight of the servicing of the nonprofit's loans; and
- a description of how the agency will ensure the amount of assistance provided to homebuyers will conform with FHA underwriting guidelines.

(iii) Board Resolution

The nonprofit must submit a copy of a board resolution that adopts the completed AHPP, including the general AHPP requirements and any program-specific AHPP requirements. This resolution must be signed and dated by the appropriate persons under applicable state law and as identified in the Articles of Organization or other governing documents.

(d) Required Documentation

The nonprofit must submit a copy of the AHPP.

For secondary financing, nonprofits must submit a copy of the agreement between the nonprofit and the servicing entity if the nonprofit plans to use another entity to service the subordinate lien.

The nonprofit must submit a copy of the board resolution that adopts the AHPP.

(17) Application Certification

The nonprofit must include the following certification with the submission of a Complete Nonprofit Application:

I/We, the undersigned, certify under penalty of perjury that the information provided above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).

The certification must include the date, and the authorized representative's printed name, signature, and title.

(B) Program-Specific Eligibility Requirements

All General Application Requirements apply to participation in any of the three nonprofit programs. Refer to the programs below for additional program-specific requirements.

(1) HUD Homes

(a) Restrictions on Sale or Lease of Properties

FHA strictly prohibits the sale or lease of Properties acquired through the HUD Homes program to any of the nonprofit's officers, directors, elected or appointed officials, employees, or business associates, either during their tenure or for one year thereafter, or to any individual who is related by blood, marriage, or law to any of the above.

(b) Conflicts of Interest

No person who is an employee, officer, or elected or appointed official of the nonprofit agency, or who is in a position to participate in a decision making process pursuant to the AHPP or gain inside information with regard to the lease or purchase of the Property pursuant to the AHPP may obtain a personal or financial interest or benefit from the purchase of the Property, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for themselves, or for those with whom they have family or business ties, during their tenure or for one year thereafter.

(2) FHA Mortgagor

(a) Restrictions on Sale or Lease of Properties

FHA strictly prohibits the sale or lease of Properties acquired by the nonprofit with FHA-insured financing to any of the nonprofit's officers, directors, elected or appointed officials, employees, or business associates, either during their tenure or for one year thereafter, or to any individual who is related by blood, marriage, or law to any of the above.

(b) Conflicts of Interest

No person who is an employee, officer, or elected or appointed official of the nonprofit agency or who is in a position to participate in a decision making process pursuant to the AHPP or gain inside information with regard to the lease or purchase of the Property pursuant to the AHPP may obtain a personal or financial interest or benefit from the purchase of the Property, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for themselves, or for those with whom they have family or business ties, during their tenure or for one year thereafter.

(3) Secondary Financing

Restrictions on Conveyance

(a) Standard

Restrictions on conveyance must comply with the requirements in 24 CFR § 203.41, including that they must automatically terminate if title to the mortgaged Property is transferred by foreclosure or Deed-In-Lieu (DIL) of Foreclosure, or if the Mortgage is assigned to the Secretary.

Restrictions on conveyance must also adhere to Legal Restrictions on Conveyance (Free Assumability).

(b) Required Documentation

The nonprofit must submit copies of the legal instruments, such as the Mortgage and Note used by, or proposed to be used by, the nonprofit agency when providing secondary financing. Legal instruments with restrictions on conveyance must comply with the requirements in 24 CFR § 203.41.

iv. Submitting the Application

The nonprofit applicant must submit applications electronically through the HUD Nonprofit Data Management System (NPDMS). NPDMS is an automated web-based system designed to allow for the electronic submission of application, recertification, and reporting documentation. NPDMS collects, stores, and provides web-based access to participant applications and property activity data.

After Submitting the Preliminary Information and receiving confirmation of eligibility, the applicant will be provided with login instructions to access NPDMS. FHA will not accept paper applications.

The nonprofit must submit a completed application within 30 Days of receiving access to NPDMS. The application date refers to the date that the application package is electronically submitted through NPDMS.

v. Processing the Application

FHA will review all completed applications for approval to determine whether the nonprofit complies with all eligibility requirements.

If FHA requires additional documentation or clarifying information, it may request such additional information and provide the nonprofit with a deadline for response. If the nonprofit does not provide the additional information requested by any specified deadline, FHA may deny approval on this basis.

vi. Incomplete Application

Nonprofit agencies that submit an incomplete application package will receive a letter indicating the information required to cure the deficiency. This letter will give nonprofit agencies 15 Days from the date on the letter to correct any deficiencies. If the new nonprofit applicant does not satisfy the outstanding requirement in its entirety and within the prescribed deadlines, the approval will be denied and the nonprofit must wait an additional 90 Days before re-applying.

vii. Application Approval

Nonprofit agencies that are approved for participation will be issued an approval letter from FHA describing which activities the nonprofit is approved for and any limitations associated with that approval.

viii. Application Rejection

A nonprofit's application may be rejected due to deficiencies or for failure to submit a program that complies with applicable regulations and requirements of this Handbook 4000.1. Nonprofit agencies that are not approved for participation will be issued a rejection letter from FHA describing the reasons for the application rejection.

The nonprofit must wait 90 Days to submit a new application.

ix. Recertification

(A) Standard

(1) Recertification Process

To retain FHA approval, nonprofits must complete FHA's recertification process prior to their two-year approval expiration. Recertification of nonprofit agencies is not automatic. Recertification requires that a nonprofit meet the Complete Nonprofit Application requirements and provide a program activity update.

(a) Complete Nonprofit Application Requirements

Recertification requires the nonprofit to certify it continues to meet the Complete Nonprofit Application requirements, except for the Relevant Experience requirement.

The nonprofit must identify the requirements of the Complete Nonprofit Application that have not changed. For any Complete Nonprofit Application requirements that have changed during the approval period, including but not limited to the Board of Directors, principal management, consultant services, adequate facilities, or lending partners, the nonprofit must identify those requirements, describe what has changed, and upload the updated information or documentation into the Nonprofit Data Management System (NPDMS).

The nonprofit must provide updated Financial Capacity documentation at recertification.

(b) Program Activity

The nonprofit must provide information about the nonprofit's activity in the nonprofit programs for which it was approved, during the approval period. Nonprofits must demonstrate that they have created affordable housing opportunities. Nonprofits must demonstrate that they met the following standards, if applicable, during the approval period:

- ability to meet the goal of expanding affordable housing opportunities for Low- to Moderate-Income individuals and families;
- compliance with the program requirements for each program the nonprofit is approved to participate in; and
- adherence to the AHPP for the programs in which the nonprofit participates.

The nonprofit must submit information about its program activity, for each program it participates in, during the approval period. The nonprofit must provide the specific program activity information as set forth below:

Program Activity	Required Information
HUD Homes	• Property address • FHA case number (on acquisition) • Date of acquisition • Loan type • Purchase price • Mortgage amount • Name of Mortgagee • Discount amount • Net Development Costs (NDC) • Sold to Low- to Moderate-Income individual or family (yes or no)

	• Resale price • Resale date
FHA Mortgagor	• Case number • Mortgage amount • Settlement date • Loan type • If 203(k), date of rehabilitation completion • Name of Mortgagee • Is the loan part of a lease purchase program (yes or no) o If so, have renters become homeowners under the terms of the agreement (yes or no) • Sales price if property resold • Sale to a Low- to Moderate-Income individual or family (yes or no) • Was the loan assumed (yes or no) • Delinquency date • Foreclosure date
Secondary Financing	• Property address • First lien mortgage amount • Second lien mortgage amount • Date of origination • Name of Mortgagee • Forgivable (yes or no) • Delinquency date • Foreclosure date

(c) Recertification Certification

The nonprofit must include the following certification with the submission of the recertification package:

> *I/We, the undersigned, certify under penalty of perjury that the information provided above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).*

The certification must include the date, and the authorized representative's printed name, signature, and title.

(2) Filing Deadline

The required documentation must be submitted to the FHA Resource Center at answers@hud.gov at least 90 Days prior to the end of the approval period. FHA must be notified of any changes that impact the recertification application after it has been submitted.

(B) Required Documentation

The recertification process requires a nonprofit to identify requirements of the Complete Nonprofit Application that have not changed. For any Complete Nonprofit Application requirements that have changed during the approval period, the nonprofit must identify those requirements, describe what has changed, and upload the updated information or documentation into the Nonprofit Data Management System (NPDMS).

To assist in identifying requirements that have not changed, as well as those that have, nonprofits may use, but are not required to use, the FHA Nonprofit Recertification Checklist.

Nonprofits must submit program activity data in NPDMS. Nonprofits may use, but are not required to use, the FHA Nonprofit Activity Workbook.

(C) Incomplete Recertification Application

Nonprofit agencies that submit incomplete recertification applications will receive a letter indicating the information required to cure the deficiency. This letter will give nonprofit agencies 15 Days from the date on the letter to correct any deficiencies. If the nonprofit applicant does not satisfy the outstanding requirement in its entirety and within the prescribed deadlines, the approval for recertification will be denied.

If the nonprofit does not submit an acceptable recertification application before the expiration of the two-year approval period, the nonprofit will be removed from the HUD Nonprofit Roster.

(D) Failure to Recertify

Failure to recertify will result in the nonprofit's removal from the program and the HUD Nonprofit Roster.

The nonprofit must comply with all program requirements for any program activity that was not finalized at the time of removal.

(E) Recertification Application Approval

Nonprofit agencies that are recertified for participation will be issued an approval letter from FHA describing which activities the nonprofit is approved for and any limitations associated with that approval. An approval is valid for a two-year period.

(F) Recertification Application Rejection

A nonprofit's recertification application may be rejected due to deficiencies or for failure to submit a program that complies with applicable regulations and requirements of this Handbook 4000.1.

Nonprofit agencies that are not approved for recertification will be issued a rejection letter from FHA describing the reasons for the rejection of the recertification application and will be removed from the HUD Nonprofit Roster.

c. Post-approval Requirements (07/14/2025)

Governmental Entities and HUD-approved Nonprofits must comply with the following requirements and restrictions for its FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in this Handbook 4000.1.

i. Consultant Services

Consultant Services provided under an independent contractor relationship (as opposed to an employer-employee relationship) must not constitute more than half of the nonprofit's activities in the operation of its FHA-approved programs. This measurement will be calculated by evaluating the ratio of nonprofit staff to contracted or consultant staff; the ratio of hours devoted to the implementation of the AHP by nonprofit staff versus contracted or consultant staff; and the funds devoted to paying nonprofit staff compared to those paying contracted or consultant staff. The nonprofit must have the in-house resources and capacity to run its own programs, and contract for services on a temporary and supplementary basis.

Therefore, to ensure that the consultant services are provided on an arm's length basis, the nonprofit must disclose any written and/or side agreements with parties that may derive financial gain through the homeownership program. Disclosure must identify the name of the business entity, and the individuals from the company who will be working with the nonprofit, the terms of the relationship and how the party will be compensated. Failure to adequately disclose may result in a conflict-of-interest determination.

The nonprofit must contact FHA immediately if more than half of the nonprofit's activities are provided by consultants under an independent contractor relationship at any time during the approval period.

ii. Limitation on the Number of 203(k) FHA-Insured Mortgages

A nonprofit is prohibited from further borrowing under its FHA Mortgagor approval if the nonprofit has 10 or more incomplete 203(k) developments at any given time.

Exceptional Performance Waiver

Nonprofit agencies with an exceptional performance record of successfully completing 203(k) developments (defined as those agencies that have successfully completed 20 or more 203(k) developments) may apply to FHA for a waiver of the limitation on 203(k) Mortgages. This waiver request must contain a narrative describing the nonprofit agency's homeownership or long-term rental program; current audited financial statements with an unqualified opinion from a CPA for the prior three years; a listing of all Properties currently owned by the nonprofit agency (both conventional and government financed); a record of performance on **all** 203(k) Mortgages (current as well as previous Loans); as well as the evidence to support the sale or rental of these Properties. Nonprofit agencies that are approved for this waiver, for financing for more than 10 203(k) Mortgages at one time, will have it stated in their approval letter from FHA.

iii. HUD Homes – Name and Address Identification

(A) Standard

In order to bid on Real Estate Owned (REO) Properties, a nonprofit must obtain a Name and Address Identification (NAID), after it receives an approval letter from HUD to participate in the HUD Homes Program. To obtain an NAID, a nonprofit must submit the required documentation through the online NAID application portal at the HUD Home Store.

(B) Required Documentation

The nonprofit must submit the IRS Letter of Determination/Ruling and HUD Nonprofit Approval Letter.

iv. HUD Homes – Individual Property Files

(A) Definition

Individual Property Files refer to files that Governmental Entities and HUD-approved Nonprofits participating in the HUD Homes program must maintain for each Property purchased, sold, or leased when a discount of 10 percent or greater is obtained at the time of purchase.

(B) Standard

Governmental Entities and HUD-approved Nonprofits must submit the Individual Property Files to FHA through the NPDMS no later than 60 Days after the resale of a Property to a subsequent homebuyer. Governmental Entities and HUD-approved Nonprofits must contact the FHA Resource Center at answers@hud.gov, notifying them when an Individual Property File is ready for review. Individual Property Files are ready for review once all data has been entered and supporting documentation has been uploaded.

The Individual Property File must be maintained for a minimum of three years after the Property is sold by the nonprofit.

(C) Required Documentation

The Individual Property File must include all supporting documentation for NDCs.

The supporting documentation includes the following:

- copies of the fully executed Closing Disclosures or similar legal documents for the nonprofit's purchase from HUD and from the nonprofit's resale of the Property to the new purchaser;
- a copy of a signed Land Use Restriction Addendum (LURA);
- income verification for the purchaser who bought from the nonprofit. This may be in the form of pay stubs; Verification of Employment (VOE); the most recent IRS Form W-2, *Wage and Tax Statement*; or Tax Returns. Nonprofits must also provide a certification that the resale purchaser's income was at or below 115 percent of HUD's determination of median income for their area when adjusted for family size;
- appraisal reports if the Property was purchased as a 203(k) or financed with 203(b) or other FHA insurance funds;
- rehabilitation documents must include:
  - Work Write-Up/contractor estimate of repair costs
  - change orders
  - inspection of repairs by nonprofit
  - invoices from contractors
  - copies of payments to contractors
- additional rehabilitation documents for 203(k) must include:
  - draw requests
  - Lien Waivers
  - Final Release Notice
- if the Property is leased under an approved lease/purchase program:
  - copies of executed lease
  - income verification
  - evidence of proactive work of nonprofit to move tenants into homeownership

- appraisal or document from independent third party to determine fair market rent
- list of other program costs, including developer's fees

Accounting records must be maintained in a property-specific format so that cost calculations can be made for all expenses related to each specific Property.

In addition, Governmental Entities and HUD-approved Nonprofits must submit a list of all business partners participating in the acquisition, rehabilitation and resale of the Property. The list must include the name of the company, the name of the principals, the name and title of all staff with whom the nonprofit is working, a description of the services provided by the company, and an accounting of the costs and fees associated with those services. This information must be reported for all real estate agents, Lenders, and contractors involved in the acquisition, rehabilitation and sale of the HUD Homes Property.

(D) HUD Homes - Net Development Costs

The NDCs are composed of the allowable property Acquisition Costs plus allowable rehabilitation, holding, and selling costs which Governmental Entities and HUD-approved Nonprofits incur when purchasing HUD Homes at discounted prices, redeveloping the Properties for resale, and selling those Properties. The NDC calculation applies to all HUD Homes sold to nonprofit organizations and Governmental Entities at a 10 percent or greater discount regardless of the source of the financing (FHA, conventional Mortgage, or cash), except for discounted REO homes purchased through the Dollar Home Sales to Local Governments, Asset Control Areas (ACA), and Good Neighbor Next Door (GNND) programs.

The purpose of these discounts and the limits on development costs is to make housing affordable to Low- to Moderate-Income families. HUD limits the costs that are eligible to be included in the NDC calculation and prohibits the nonprofit organization or Governmental Entity from reselling the repaired or improved Properties at prices in excess of 110 percent of the NDC calculation. If the nonprofit organization's or Governmental Entity's resale price of the HUD Home exceeds 110 percent of the NDC, or if non-allowable items that are included in the NDC result in an excessive sales price, the HUD-approved Nonprofit or Governmental Entity must use the excess profit to pay down the existing Mortgage associated with that particular resale.

(1) Costs Allowed in Calculating the Net Development Costs

Only the costs specifically included in the following list, within the prescribed limitations and/or conditions, may be included in calculating the NDCs:

- the discounted purchase price paid to HUD;

- upon the purchase of the Property from HUD, prepaid items and financing and closing costs actually incurred, which must be reasonable and customary for the area in which the Property is located;
- for the time period the nonprofit organization or Governmental Entity holds title, the following costs, limited to amounts that are reasonable and customary for the area in which the Property is located, may be included:
  - fees paid to an approved 203(k) Consultant for Work Write-Ups, Cost Estimates, and inspections only;
  - property management, but only if related to periodic inspection and/or minor maintenance of the Property;
  - architectural fees, but only if the services are provided by a licensed architectural firm or individual architect;
  - rehabilitation costs, which are the total verifiable contractor and vendor expenditures incurred in the actual reconstruction, repair, restoration, and physical improvement of the Property. Rehabilitation costs are limited to the actual price paid to the contractor for completing each repair or improvement, and may also include expenditures for mechanical systems inspections, sewer and well inspections, repair inspections, foundation certifications for Manufactured Housing obtained from a licensed engineer, and roof inspections from a licensed contractor. HUD may require canceled checks and corresponding receipts as proof of rehabilitation costs. When calculating the NDC, Governmental Entities or HUD-approved Nonprofits using grant funds for the rehabilitation of HUD Homes acquired at a discount, cannot include the cost of the rehabilitation that is paid for by those grant funds;
  - cost of public and municipal services and utilities and real property taxes for the subject premises, except for delinquent interest or penalty charges incurred as a result of failure of program participant to pay these expenses in a timely manner;
  - cost of termite inspection and extermination services;
  - Homeowners' Association (HOA) or Condominium Fees;
  - permits and other fees paid to units of state and local governments that are required by rule, law, regulation, or other legally binding mandate that must be paid before initiating or completing the rehabilitation or property improvement;
  - survey costs;
  - hazard and liability insurance premiums; and
  - interest portion of Mortgage Payments limited to a maximum of 18 months' interest payments, less any and all rents received. If the Property is resold in less than 18 months, the interest payment credit must be pro-rated on the basis of the actual payments made – rent received and interest paid would be allowable costs but not the principal; and

- upon the resale of the Property to a new purchaser, only the following seller closing costs that are actually incurred, limited to amounts that are reasonable and customary for the area in which the Property is located, may be included:
  - ½ of closing agent fee (seller's portion);
  - electronic wiring fees;
  - courier and mailing fees (seller's documents only);
  - title insurance premium (owner's policy only);
  - state, county, or city tax stamps, if local law requires the seller to pay these costs;
  - homeowners warranty premium;
  - environmental hazard certification;
  - document preparation fee (seller's documents only);
  - recording (deed only) and reconveyance fees;
  - sales commissions for real estate broker/agent services; and
  - condominium transfer fee.

(2) Costs Not Allowed in Calculating the Net Development Costs

Costs not listed in Costs Allowed in Calculating the Net Development Costs are ineligible and cannot be included in the NDC calculation. Ineligible costs include:

- general administration cost of the nonprofit organization's or Governmental Entity's AHPP and homeownership programs, including overhead and staffing costs;
- housing developer fees and/or real estate consultant fees;
- sales bonuses and sales incentives (other than sales commissions) for selling or listing real estate brokers/agents;
- Gifts to the Low- to Moderate-Income purchaser for downpayment, financing or closing costs, prepaid items, and any other purchaser-related expenses associated with their purchase of the Property;
- development, maintenance, and management costs related to other Properties in the nonprofit organization's or Governmental Entity's inventory;
- delinquent property tax or utility penalties and interest; and
- Mortgage Payment late fees, prepayment penalties, payoff quote fees, and fax charges.

(E) HUD Homes - Land Use Restriction Addendum

(1) Definition

The Land Use Restriction Addendum (LURA) is a legally binding contractual agreement between HUD and the Governmental Entities or nonprofits imposing restrictions on the resale of a HUD Home that the nonprofit organization or Governmental Entity purchased at a discount of 10 percent or greater.

(2) Standard

Governmental Entities and HUD-approved Nonprofits participating in the HUD Homes program must execute the LURA as part of the FHA sales contract for any Property purchased at a 10 percent or greater discount. The LURA terminates five years from the date of execution.

The LURA requires the purchaser to expand affordable housing opportunities by complying with the following requirements:

- The purchaser must complete needed repairs to bring the Property into compliance with local housing code followed by resale, lease, or lease purchase only to a person who intends to occupy the Property as their Principal Residence and whose income is at or below 115 percent of the median income in the area, when adjusted for family size, or state, Governmental Entity, tribe, or agency thereof.
- If sold, the purchaser must resell the Property for an amount not in excess of 110 percent of the NDCs. The NDCs are the total HUD-allowable costs to purchase, rehabilitate, and resell the Property.
- The Property may not be occupied by or resold to any of the purchaser's officers, directors, elected or appointed officials, employees, or business associates, either during their tenure or for one year thereafter, or to any individual who is related by blood, marriage, or law to any of the above.
- There may be no conflict of interest with individuals or firms that may provide acquisition or rehabilitation funding; management, sales or rehabilitation services; or other services associated with the Property.

The Governmental Entity or HUD-approved Nonprofit must provide periodic reports, in the format and frequency specified in the HUD Homes – Individual Property Files section.

Exception

Discounted homes purchased through the Dollar Homes Sales to Local Governments, GNND and ACA programs are not subject to the LURA restrictions.

5. Real Estate Brokers

a. Definitions (09/30/2016)

A HUD-Registered Real Estate Broker is a real estate listing or selling broker approved by HUD to list or sell HUD Real Estate Owned (REO) Properties.

A Listing Broker is a HUD-Registered Real Estate Broker who lists HUD-owned Properties for sale.

A Selling Broker is a HUD-Registered Real Estate Broker who submits bids on behalf of prospective buyers.

b. Requirements (09/30/2016)

i. Program Overview

HUD must approve any real estate broker wishing to list Properties or represent buyers in sales transactions of HUD REO Properties.

ii. Use of Name and Address Identification

Each real estate broker wishing to list Properties or represent buyers in sales transactions of HUD REO Properties must have an active Name and Address Identification (NAID) issued by HUD; all agents conducting business in that real estate broker's office may use that broker's active NAID. For brokerages with several offices, each with a different real estate broker, each office may apply for a separate NAID.

c. Application and Registration Process (09/09/2019)

i. Real Estate Broker's Application

Real estate brokers must submit the following to the FHA Resource Center at answers@hud.gov for the area in which the broker's office is located:

- form SAMS-1111, *Payee Name and Address*;
- form SAMS-1111-A, *Real Estate Broker Certification*;
- IRS Letter 147C or other official Internal Revenue Service (IRS) document reflecting their business name and Employer Identification Number (EIN) or, if operating under a Social Security Number (SSN), a copy of their Social Security card;
- a copy of their active real estate broker's license with an expiration date;
- a copy of their current driver's license with an expiration date; and
- a recent utility bill or bank statement that lists the address and company or broker name shown on form SAMS-1111.

ii. HUD Registration

HUD will issue an NAID to HUD-Registered Real Estate Brokers via HUD Home Store.

d. Annual Recertification (09/30/2016)

HUD-Registered Real Estate Brokers must be recertified by HUD each year. NAID certifications for brokers are valid for only one year from the date they are issued. HUD-Registered Real Estate Brokers must submit the completed form SAMS-1111 and supporting documentation to the FHA Resource Center at answers@hud.gov.

Failure to timely submit annual recertification may result in deactivation of the NAID by HUD in accordance with 24 CFR § 291.100(i).

6. Closing Agents

a. Requirements (09/30/2016)

Closing Agents must meet all of the following requirements in order to conduct a closing on a sales transaction of a HUD REO Property.

i. Licensure or Ability to Do Business in State where Property is Located

The Closing Agent must be an attorney, title company, or escrow company that meets all state and local requirements for eligibility to conduct closings as follows:

- An attorney or law firm may act as Closing Agent if they are duly licensed to practice law in the state where the Property is located and state law allows an attorney to facilitate closings.
- A title company may act as Closing Agent if they are duly licensed to do business in the state where the Property is located and are regulated by the state insurance commission, or similar regulatory agency recognized by the state.
- An escrow company may act as Closing Agent if they are duly licensed to do business in the state where the Property is located and meet all state legal and regulatory requirements as a recognized and registered escrow company.

ii. Errors and Omissions Insurance

The Closing Agent is covered by errors and omissions insurance of at least $1,000,000.

iii. Debarment or Suspension

A Closing Agent must not, and cannot, participate in any aspect of the closing or title clearance process if they are currently debarred, suspended, or otherwise excluded from participating in HUD's programs.

b. Application and Approval Process (09/30/2016)

i. Title Identification Number

(A) Definition

A Title Identification (ID) Number is a number identifying a Closing Agent registered to perform closings on HUD REO sales transactions.

(B) Standard

The Closing Agent must complete a one-time registration to receive a HUD-issued Title ID Number. The Closing Agent must provide to the Asset Manager (AM):

- a copy of the Closing Agent's state license; and
- a Closing Protection Letter (CPL) evidencing errors and omissions insurance coverage.

HUD will review the Closing Agent's documentation and, if HUD approves, will issue a Title ID Number. The AM will notify the Closing Agent of the issuance of the Title ID Number.

ii. P260 Access

Once the Closing Agent has received a HUD-issued Title ID Number, the Closing Agent must contact the AM to request access to P260.

7. Title I Property Improvement Dealers (05/09/2022)

A Dealer, for the purposes of a Title I Property Improvement Loan, refers to a seller, contractor, or supplier of goods or services. If the Dealer assisted the Borrower in preparing the credit application or assisted the Borrower in obtaining the Loan from the Lender, the Lender must comply with the requirements in Direct and Dealer Loan Process for Property Improvement Loan Program.

To facilitate the financing of property improvements, the Dealer may enter into a Business Relationship with an FHA Title I approved Lender that will provide financing to the Borrower.

8. Title I Manufactured Home Dealers (05/09/2022)

A Dealer, in the case of Manufactured Home Loans, is a person or business that is engaged in the business of manufactured home retail sales. Dealers of manufactured home sales have a financial interest (either direct or indirect) in the transaction.

If a Dealer assisted the Borrower in preparing the credit application or assisted the Borrower in obtaining the Loan from the Lender, the Lender must comply with the requirements in Direct and Dealer Loan Process for Manufactured Home Loan Program.

9. Title I Chattel Appraisers

a. Definitions (05/09/2022)

Chattel Appraiser refers to an appraiser who observes, analyzes, and reports the physical and economic characteristics of Chattel and provides an opinion of value to FHA.

Chattel refers to tangible, movable Personal Property that is not Real Property.

b. Standard (05/09/2022)

To be eligible to appraise Chattel, the Chattel Appraiser must be:

- certified as a Manufactured Housing Valuation (MHV) appraiser. MHV appraisers are trained and certified in accordance with NADAguides guidelines to use the National Appraisal System (NAS); or
- certified as a real estate Appraiser who is listed as active on the FHA Appraiser Roster, and certifies on each appraisal that the Appraiser has experience and competence in appraising Manufactured Homes where ownership interest is Chattel (or Personal Property).

In addition, the Chattel Appraiser must not be:

- suspended, debarred, or otherwise excluded; and
- listed on HUD's Limited Denial of Participation (LDP) List, HUD's Credit Alert Verification Reporting System (CAIVRS), or subject to any current loss of standing or suspension as a certified Appraiser in any state. A state refers to any state of the United States, Puerto Rico, the District of Columbia, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the United States Virgin Islands.

i. Competency Requirement

The Chattel Appraiser must be knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP) and FHA appraisal requirements. The Chattel Appraiser must meet the competency requirements defined in USPAP prior to accepting an assignment. The Chattel Appraiser must be knowledgeable in the market where the assignment is located.

ii. Licensing Requirement

For appraisals of Manufactured Homes under chattel ownership, if the appraiser is not a certified real estate appraiser listed as active on the FHA Appraiser Roster as above, then the appraiser must provide proof of certification as an MHV appraiser.

iii. Compliance to Uniform Standards of Professional Appraisal Practice

All Chattel Appraisers must comply with USPAP, including the Competency Rule, when conducting appraisals of Properties classified as Personal Property or Real Property.

All appraisers providing services involving Manufactured Homes where the property interest is Chattel (or Personal Property) will follow USPAP Standards 7 and 8 when developing and reporting the results of the appraisal.

iv. Pending or Settled Actions

Prior to accepting an assignment from a Lender, the Chattel Appraiser must disclose all lawsuits, administrative complaints, Findings, or reports produced in connection with an investigation, audit, or review conducted by HUD, another federal, state, or local governmental agency, or by any other regulatory or oversight entity with jurisdiction over the Chattel Appraiser, its officers, partners, directors, principals, managers, supervisors,

and other agents, that are currently pending or were resolved within two years of the application, including any violations of the Fair Housing Act, 42 U.S.C. §§ 3601–3619.

c. Post-appraisal Requirements (05/09/2022)

The Appraiser must comply with the following requirements and restrictions for its FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in this Handbook 4000.1.

i. Compliance with Law

The Appraiser's performance must comply with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws.

ii. Appraiser Competency Requirement

The Chattel Appraiser assigned to provide the appraisal must be able to complete an assignment for the property type, assignment type, and geographic location of the subject Property.

The Chattel Appraiser must comply with USPAP, including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing.

iii. Communications with Appraisers

A Chattel Appraiser must avoid conflicts of interest and the appearance of conflicts of interest. To avoid conflicts of interest and the appearance of conflicts of interest, the Chattel Appraiser must not have substantive communications relating to or having an impact on valuation, including ordering or managing an appraisal assignment with any member of a Lender's loan production staff, any person who is compensated on a commission based on the successful completion of a Loan, or any person who reports to any officer of the Lender who is associated with the loan production staff and process.

The Chattel Appraiser is bound by the confidentiality provisions of USPAP and, other than the exceptions to the confidentiality provisions listed in USPAP, may not discuss the value or conclusions of the appraisal with anyone other than the Title I underwriter or FHA staff or their representatives. The Chattel Appraiser may discuss components of the appraisal that influence its quality and value with the Title I underwriter who has responsibility for underwriting the case.

The Chattel Appraiser may interact with real estate agents and others during the normal course of business to provide property access, information, and other market data.

iv. Appraisal Fees

The Chattel Appraiser and the Lender or Lender-designated third party will negotiate the appraisal fees and due date. FHA does not establish appraisal fees or due dates.

v. Obligation to Report

(A) Professional Appraisal Organizations

The Chattel Appraiser may be a member or hold designations in professional appraisal organizations. If the Chattel Appraiser is a member, candidate, or associate of an appraisal organization, the Chattel Appraiser must report to the Lender any adjudicated actions resulting in a disciplinary action, or the suspension of the Chattel Appraiser within 14 Days of such action. The Chattel Appraiser must also disclose this information on each appraisal report submitted for FHA chattel loans for the entire period in which the disciplinary action is in place.

(B) Safeguards for Appraiser Independence

The Chattel Appraiser must report attempts to influence independence to answers@hud.gov or by calling 1-800-CALLFHA (1-800-225-5342). In addition, the Chattel Appraiser must report the attempts to HUD's Office of Inspector General (OIG). All referrals to the OIG should be made to the OIG Hotline's call center at 1-800-347-3735 or via the OIG Hotline's website at www.hudoig.gov/hotline. Lenders, Appraisal Management Companies (AMC), and third parties are prohibited from influencing the independence of the Chattel Appraiser and the valuation process. Prohibited acts and attempts to influence the results of an appraisal include the following:

- withholding or threatening to withhold timely payment or partial payment for an appraisal report;
- withholding or threatening to withhold future business from a Chattel Appraiser, or demoting, terminating, or threatening to demote or terminate a Chattel Appraiser;
- making expressed or implied promises of future business, promotions, or increased compensation for a Chattel Appraiser;
- conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from a Chattel Appraiser;
- requesting that a Chattel Appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that a Chattel Appraiser provide estimated values or comparable sales at any time prior to the Chattel Appraiser's completion of an appraisal report;
- providing the Chattel Appraiser with an anticipated, estimated, encouraged, or desired value for a subject Property, or a proposed or target amount to be

loaned to the Borrower, except for a copy of the sales contract for purchase and any addendum, which must be provided;

- providing the Chattel Appraiser, appraisal company, AMC, or any entity or person related to the Chattel Appraiser, with stock or other financial or nonfinancial benefits;
- allowing the removal of a Chattel Appraiser from a list of qualified Chattel Appraisers or the addition of a Chattel Appraiser to an exclusionary list of qualified Chattel Appraisers, used by any entity, without prompt written notice to the Chattel Appraiser that includes written evidence of the Chattel Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior, or other substantive reason for removal;
- ordering, obtaining, using, or paying for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a mortgage financing transaction, unless:
  - there is a reasonable basis to believe that the initial appraisal was flawed or tainted, and such appraisal is clearly and appropriately noted in the case binder; or
  - such appraisal or AVM was completed pursuant to a written, pre-established bona fide pre- or post-funding appraisal review, quality control process, or underwriting guidelines, and the Lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; and
- any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, or impartiality or violates law or regulation.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

The Title II Insured Housing Programs Forward Mortgages, Origination through Post-closing/Endorsement section in this *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) provides the origination, underwriting, closing, post-closing, and endorsement standards and procedures applicable to all Single Family (one- to four-units) Mortgages insured under Title II of the National Housing Act, except for Home Equity Conversion Mortgages (HECM). The Mortgagee must fully comply with all of the following standards and procedures in originating, underwriting, and closing for obtaining Federal Housing Administration (FHA) mortgage insurance on a Mortgage. If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative program or product specific standards and procedures are explicitly stated. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

1. Origination/Processing

a. Applications and Disclosures (11/10/2026)

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

i. Contents of the Mortgage Application Package

The Mortgagee must maintain all information and documentation that is relevant to its approval decision in the mortgage file. All information and documentation that is required in this Handbook 4000.1, and any incidental information or documentation related to those requirements, is relevant to the Mortgagee's approval decision.

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

(A) General Requirements

(1) Maximum Age of Mortgage Documents

(a) General Document Age

Documents used in the origination and underwriting of a Mortgage may not be more than 120 Days old at the Disbursement Date, except for appraisals,

which are subject to separate validity period requirements. Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or Tax Returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting Days for periods provided in this Handbook 4000.1, Day one is the Day after the effective or issue date of the document, whichever is later.

(b) Appraisal Validity

***(i)* Initial Appraisal Validity**

The initial appraisal validity period is 180 Days from the effective date of the appraisal report. See Ordering Appraisals.

***(ii)* Appraisal Update**

Where the initial appraisal report will be more than 180 Days at Disbursement Date, an appraisal update may be performed to extend the appraisal validity period. See Ordering an Update to an Appraisal. Where the initial appraisal is updated, the updated appraisal is valid for one year after the effective date of the initial appraisal report that is being updated.

(2) Handling of Documents

Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by or transmitted from or through unknown parties or Interested Parties. Mortgagees may not accept or use any Third Party Verifications (TPV) that have been handled by or transmitted from or through unknown parties, Interested Parties, or the Borrower.

Exception for Mortgagees and TPOs

The Mortgagee and TPO are permitted to handle documents relating to the employment, income, assets, credit, or occupancy of Borrowers.

(a) Information Sent to the Mortgagee Electronically

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

(b) Information Obtained via Internet

The Mortgagee must authenticate documents obtained from an internet website and examine portions of printouts downloaded from the internet.

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

(c) Confidentiality Policy for Credit Information

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

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), 15 U.S.C. §§ 1681a–1681x;
- the Right to Privacy Act, 5 U.S.C. § 552a;
- the Right to Financial Privacy Act, 12 U.S.C. §§ 3401–3423; and
- the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691a–1691f.

(3) Signature Requirements for All Application Forms

All Borrowers must sign and date the initial and final *URLA*. All Borrowers must sign and date page two of the initial form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application,* and sign and date the complete final form HUD-92900-A. The application may not be signed by any party who will not be on the Note.

- For Borrowers that are entities, the signatory must be a representative who is duly authorized to bind the entity.
- A Power of Attorney (POA) may not be used unless the Mortgagee verifies and documents that all of the following requirements have been satisfied:
  - For military personnel, a POA may only be used:
    - when the servicemember is on overseas duty or on an unaccompanied tour;
    - when the Mortgagee is unable to obtain the absent Borrower's signature on the application by mail or via fax; and
    - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
  - For incapacitated Borrowers, a POA may only be used where:
    - a Borrower is incapacitated and unable to sign the mortgage application;

- the incapacitated individual will occupy the Property to be insured, or the Property is being underwritten as an eligible Investment Property; and
- the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

For guidance on use of POA on closing documents refer to Use of Power of Attorney at Closing.

Prohibition on Documents Signed in Blank

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

(4) Policy on Use of Electronic Signatures

(a) Definition

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

(b) Use of Electronic Signatures

An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for mortgage insurance, unless otherwise prohibited by law.

Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.

(c) Electronic Signature Performance Standards

The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, Mortgagees choosing to use electronic signatures must fully comply with the Performance Standards.

(i) The Electronic Signatures in Global and National Commerce Act Compliance and Technology

A Mortgagee's electronic signature technology must comply with all requirements of the Electronic Signatures in Global and National Commerce Act (ESIGN Act), including those relating to disclosures, consent, signature, presentation, delivery, and retention, and with any state law applicable to the transaction.

(ii) Third Party Documents

Third Party Documents are those documents that are originated and signed outside of the control of the Mortgagee, such as the sales contract. FHA will accept electronic signatures on Third Party Documents included in the case binder for mortgage insurance endorsement in accordance with the ESIGN Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

(iii) Authorized Documents

Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the Mortgagee complies with the Performance Standards.

- **Mortgage Insurance Endorsement Documents:** Electronic signatures will be accepted on all documents requiring signatures included in the case binder for mortgage insurance except the Note. FHA will accept electronic signatures on the Note for forward Mortgages only. FHA will not accept electronic signatures on HECM Notes.

- **Servicing and Loss Mitigation Documentation:** Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured Mortgages.

- **FHA Insurance Claim Documentation:** Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-27011, *Single Family Application for Insurance Benefits*.

- **HUD Real Estate Owned (REO) Documents:** Electronic signatures will be accepted on the HUD REO Sales Contract and related addenda.

(iv) Associating an Electronic Signature with the Authorized Document

The Mortgagee must ensure that the process for electronically signing authorized documents provide for the document to be presented to the signatory before an electronic signature is obtained. The Mortgagee must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.

(v) Intent to Sign

The Mortgagee must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the ESIGN Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes:

- identifying the purpose for the Borrower signing the electronic record;
- being reasonably certain that the Borrower knows which electronic record is being signed; and
- providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.

Intent to use an electronic signature may be established by, but is not limited to:

- an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature;
- an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or
- a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.

(vi) Single Use of Signature

Mortgagees must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.

This provision does not apply to documents signed by Mortgagee employees or Mortgagee contractors provided the Mortgagee obtains the consent of the individual for the use of their electronic signature. The Mortgagee must document the employee's or contractor's consent.

(vii) Authentication

Definition

Authentication refers to the process used to confirm a signer's identity as a party in a transaction.

Standard for Authentication

Before a Mortgagee submits the case for endorsement, the Mortgagee must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to:

- national commercial credit bureaus;
- commercially available data sources or services;
- state motor vehicle agencies; or
- government databases.

The Mortgagee must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.

(viii) Attribution

Definition

Attribution is the process of associating the identity of a signer with their signature.

Standard for Attribution

The Mortgagee must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.

The Mortgagee must use one of the following methods, or combinations of methods, to establish attribution:

- selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process;
- delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method;
- knowledge base authentication using "out of band/wallet" information;
- measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement,

together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or
- public key cryptography.

(ix) Credential Loss Management

Mortgagees must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable:

- maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password;
- ensuring that identification code and password issuances are periodically checked, recalled, or revised;
- following loss management procedures to electronically deauthorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls;
- using transaction safeguards to prevent unauthorized use of passwords or identification codes; or
- detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.

(d) Required Documentation and Integrity of Records

Mortgagees must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed. Mortgagees must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.

If changes to the document are made, the electronic process must be designed to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them.

The Mortgagee's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the Mortgagee or holder as the controlling reference copy.

(B) Mortgage Application and Initial Supporting Documentation

(1) *URLA* and *HUD Addendum to Uniform Residential Loan Application*

Unless otherwise noted, *URLA* and *HUD Addendum to Uniform Residential Loan Application* (form HUD-92900-A) refer to both initial and final applications.

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

The Mortgagee must also include the debt of a non-borrowing spouse on the *URLA* if the Borrower resides in a community property state, or the Property being insured is located in a community property state, and non-borrowing spouse obligations are not excluded by state law. The loan originator identified on the *URLA* must be the actual licensed loan originator regardless of whether the loan originator is employed by a sponsored Third-Party Originator (TPO) or the Mortgagee. The *URLA* must contain the loan originator's name, Nationwide Mortgage Licensing System and Registry (NMLS) identification number, telephone number, and signature.

(2) Mortgage Application Name Requirements

(a) Standard

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

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

Mortgage applications from a corporation, partnership, sole proprietorship, or trust must be in the name of the entity and also be in the name of one or more individuals.

Exception

Mortgage applications for Governmental Entities and HUD-approved Nonprofits that provide assistance to low- or moderate-income families may be solely in the corporation's name.

(b) Required Documentation

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

For nonprofit Borrowers, the Mortgagee must obtain a copy of the FHA approval letter from the nonprofit. The Mortgagee must also verify that the nonprofit is eligible to be a Borrower as indicated on the U.S. Department of Housing and Urban Development (HUD) Nonprofit Roster.

(C) Borrower Authorization for Verification Information

(1) Borrower's Authorization

(a) Standard

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

(b) Required Documentation

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

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

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

(3) Tax Verification Form or Equivalent

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

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

(1) Standard

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

(2) Required Documentation

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

(E) Sales Contract and Supporting Documentation

(1) Sales Contract

(a) Standard

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

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

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

The Family Member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.

Family Member is defined as follows, regardless of sex or legal marital status:

- child, parent, or grandparent;
  - a child is defined as a son, stepson, daughter, or stepdaughter;
  - a parent or grandparent includes a stepparent/grandparent or foster parent/grandparent;
- spouse or domestic partner;
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
- foster child;
- brother, stepbrother;
- sister, stepsister;
- uncle, aunt; or
- son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.

(i) Amendatory Clause

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

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

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

An amendatory clause is not required in connection with:

- HUD REO sales;
- FHA's 203(k) mortgage program;
- sales in which the seller is:
  - Fannie Mae;
  - Freddie Mac;
  - U.S. Department of Veterans Affairs (VA);
  - United States Department of Agriculture (USDA) Rural Housing Services;
  - other federal, state, and local government agencies;
  - a Mortgagee disposing of REO assets; or
  - a seller at a foreclosure sale; or
- sales in which the Borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

(ii) Real Estate Certification

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

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

parties are signatories to the sales contract submitted at the time of underwriting.

***(iii)* Property Assessed Clean Energy**

Where the subject Property is encumbered with a Property Assessed Clean Energy (PACE) obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to, closing.

(b) Required Documentation

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

(2) Statement of Appraised Value

The Borrower must receive a copy of form HUD-92800.5B.

A statement of appraised value is not required in connection with:

- HUD REO sales;
- FHA's 203(k) mortgage program;
- sales in which the seller is:
  - Fannie Mae;
  - Freddie Mac;
  - the VA;
  - USDA Rural Housing Services;
  - other federal, state, and local government agencies;
  - a Mortgagee disposing of REO assets; or
  - a seller at a foreclosure sale; or
- sales in which the Borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

ii. Disclosures and Legal Compliance

(A) HUD Required Disclosures [Text was deleted in this section.]

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

(1) Informed Consumer Choice Disclosure

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

(2) Lead-Based Paint

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

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

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

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

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

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

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

(C) Nondiscrimination Policy

The Mortgagee must fully comply with all applicable provisions of:

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the FCRA, 15 U.S.C. §§ 1681a–1681x; and
- the ECOA, 15 U.S.C. §§ 1691a–1691f.

The Mortgagee must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, location of the Property, or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

iii. Application Document Processing

(A) Mortgagee Responsibilities

The Mortgagee must order the FHA case number and perform any associated tasks in FHA Connection (FHAC). For a Single-Unit Approval, the Mortgagee must follow the Single-Unit Approval case number assignment process. The Mortgagee may use nonemployees in connection with its origination of FHA-insured Mortgages only as described below. The Mortgagee ultimately remains responsible for the quality of the Mortgage and for strict compliance with all applicable FHA requirements, regardless of the Mortgagee's relationship to the person or entity performing any particular service or task.

(1) Sponsored Third-Party Originator

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

(2) Housing Counseling Services

Mortgagees must ensure that Borrowers receive all required counseling, and that all counseling is provided by HUD-approved housing counseling agencies.

(3) Other Contract Service Providers

The Mortgagee may utilize Eligible Contractors to perform the following administrative and clerical functions: typing of mortgage documents, mailing out and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping Mortgages to investors.

(4) Excluded Parties

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

(B) Initial Document Processing

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

(1) Ordering Case Numbers

The Mortgagee must use FHAC to order FHA case numbers. A case number can be obtained only when the Mortgagee has an active mortgage application for the subject Borrower and Property.

In order to obtain a case number, the Mortgagee must:

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

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

(a) Automated Data Processing Codes

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

(b) Case Numbers on Sponsored Originations

The Mortgagee will not be able to order case numbers for sponsored originations unless their sponsored TPO has been registered in FHAC.

(2) Holds Tracking

If FHAC detects a scenario for which a case number cannot be assigned, the Mortgagee will receive notification that the case number assignment has been placed in Holds Tracking. The Mortgagee must review the Holds Tracking screen

in FHAC to determine the necessary actions to obtain a case number. Case number requests for Units in Condominium Projects for Single-Unit Approval processing that are placed in Holds Tracking must follow the guidance outlined in Single-Unit Approval Case Number Assignment.

(3) Canceling and Reinstating Case Numbers

(a) Canceling a Case Number

The Mortgagee may request cancellation of a case number by submitting a request to FHAC.

(b) Automatic Case Number Cancellations

Case numbers without an appraisal logged into FHAC are automatically canceled after six months if one of the following actions is not performed as a last action:

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

Cases with an appraisal logged are not subject to automatic cancellation for one year from the appraisal effective date.

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

(c) Reinstatement of Case Numbers

The Mortgagee may request reinstatement of canceled case numbers by submitting a request to FHAC.

Case numbers that were automatically canceled will be reinstated only if the Mortgagee provides evidence that the subject Mortgage closed prior to cancellation of the case number, such as a Closing Disclosure or similar legal document.

(4) Transferring Case Numbers

(a) Requirements for the Transferring Mortgagee

The original Mortgagee must assign the case number to the new Mortgagee using the Case Transfer function in FHAC immediately upon the Borrower's request.

The original Mortgagee may provide processing documents but is not required to do so.

The original Mortgagee may not charge the Borrower for the transfer of any documents, but the original Mortgagee may negotiate a fee with the new Mortgagee for providing the processing documents. The original Mortgagee is never entitled to a fee for the transfer of processing documents for a Streamline Refinance.

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

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

(5) Ordering Title Commitments

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

(6) Ordering Appraisals

The Mortgagee must order a new appraisal for each case number assignment and may not reuse an appraisal that was performed under another active or endorsed case number, even if the prior appraisal is not yet more than 180 Days old. The Mortgagee may utilize an appraisal report performed by an FHA Roster Appraiser when the FHA Case Number was previously canceled and never endorsed.

(a) Appraisal Integrity

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

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

The Mortgagee must ensure that FHA is listed on the appraisal report as an intended user of the appraisal.

(b) Selection of a Qualified Appraiser

The Mortgagee must order an appraisal from an Appraiser who is listed on the FHA Appraiser Roster and is qualified and knowledgeable in the specific market area in which the Property is located. The Mortgagee must evaluate the Appraiser's education, training and actual field experience to determine whether the Appraiser has sufficient qualifications to perform the appraisal before assignment.

The Mortgagee may not discriminate on the basis of race, color, religion, sex, age, national origin, familial status, disability, or marital status in the selection of an Appraiser.

(c) Use of Appraisal Management Company or Third-Party Contractors

The Mortgagee may engage an Appraisal Management Company (AMC) to perform services related to the obtaining of an appraisal. The Mortgagee remains responsible for the acts of its AMC or third-party contractors.

The Mortgagee may not pay the AMC and other third-party contractors fees in excess of what is customary and reasonable for such services in the market area where the Property being appraised is located. Any management fees must be for actual services related to the ordering process, or review of appraisal for FHA financing.

(d) Appraiser Independence

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

The Mortgagee, or any third party specifically authorized by the Mortgagee, is responsible for selecting, retaining, and providing for payment of all compensation to the Appraiser. The Mortgagee or authorized third party may not allow the Appraiser to be selected, retained, managed, or compensated by a mortgage broker or any member of a Mortgagee's or authorized third party's staff who is compensated on a commission basis tied to the successful completion of a Mortgage, or who is not independent of the Mortgagee's mortgage production staff or processes or the authorized third party's staff or processes.

The Mortgagee must ensure that it does not:

- compensate the Appraiser at a rate that is not commensurate in the market area of the Property being appraised with the assignment type, complexity and scope of work required for the appraisal services performed;
- withhold or threaten to withhold timely payment or partial payment for an appraisal report;

- prohibit the Appraiser from recording the fee paid for the performance of the appraisal in the appraisal report;
- condition the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- provide to the Appraiser, appraisal company, AMC or any entity or person related to the Appraiser, appraisal company or AMC, stock or other financial or nonfinancial benefits;
- order, obtain, use, or pay for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a Mortgage financing transaction unless:
  - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such belief is clearly and appropriately noted in the mortgage file; or
  - such appraisal or AVM was completed pursuant to written, preestablished bona fide pre- or post-Disbursement appraisal review or quality control process or underwriting guidelines and the Mortgagee adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value;
- withhold or threaten to withhold future business from an Appraiser, or demote or terminate or threaten to demote or terminate an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- make expressed or implied promises of future business, promotions, or increased compensation for an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- allow the removal of an Appraiser from a list of qualified Appraisers or the addition of an Appraiser to an exclusionary list of qualified Appraisers, used by any entity, without prompt written notice to such Appraiser. The notice must include written evidence of the Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior, or other substantive reason for removal;
- request that an Appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- provide to the Appraiser an anticipated, estimated, encouraged, or desired value for a subject Property or a proposed, or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase and any addendum must be provided; or

- perform any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, or impartiality, or that violates any applicable law, regulation, or requirement.

(e) Additional Requirements When Ordering an Appraisal

The Mortgagee must provide to the selected Appraiser the FHA case number and a complete copy of the subject sales contract including all addenda, land lease, surveys and other legal documents contained in the mortgage file necessary to analyze the Property.

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

Where the Mortgagee determines that the Property is subject to a PACE obligation, it must notify the Appraiser that the PACE obligation will be paid off as a condition of loan approval.

(7) Appraisal Effective Date

(a) Standard

The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal was ordered for conventional financing, or other government-guaranteed loan purposes and was performed by an FHA Roster Appraiser, or the previous FHA case number was canceled.

The Mortgagee must ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions as detailed in this Handbook 4000.1 and the Appraisal Report and Data Delivery Guide. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.

(b) Required Documentation

The Mortgagee must retain documentation in the case binder substantiating conversion of the Mortgage to FHA.

(8) Transferring Existing Appraisals

In cases where a Borrower has switched Mortgagees, the first Mortgagee must, at the Borrower's request, transfer the appraisal to the second Mortgagee within five

business days. The Appraiser is not required to provide the appraisal to the new Mortgagee. The client name on the appraisal does not need to reflect the new Mortgagee. If the original Mortgagee has not been reimbursed for the cost of the appraisal, the Mortgagee is not required to transfer the appraisal until it is reimbursed.

The second Mortgagee may not request the Appraiser to readdress the appraisal. If the second Mortgagee finds deficiencies in the appraisal, the Mortgagee must order a new appraisal.

Where a Mortgagee uses an existing appraisal for a different Borrower, the Mortgagee must enter the new Borrower's information in FHAC prior to being scored by the TOTAL scorecard. The Mortgagee must collect an appraisal fee from the new Borrower and refund the fee to the original Borrower.

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

(9) Ordering Second Appraisal

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

The Mortgagee may order a second appraisal for Mortgages that are in accordance with requirements on Property Flipping.

(a) Second Appraisal by Original Mortgagee

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

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

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

compromise the integrity, accuracy, and/or thoroughness of the appraisal submitted to the client.

(b) Second Appraisal by Second Mortgagee

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

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

(c) Use of Second Appraisal

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

(d) Required Documentation

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

(10) Ordering an Update to an Appraisal

The Mortgagee may only order an update if (1) it is a Mortgagee listed as an intended user of the original appraisal or (2) it has obtained an appraisal transfer as described in Transferring Existing Appraisals and the Appraiser incorporates the original appraisal report being updated by attachment rather than by reference per Advisory Opinion 3 of USPAP.

The Mortgagee may use an appraisal update only if:

- it is performed by an FHA Appraiser who is currently in good standing on the FHA Appraiser Roster;
  - if a substitute Appraiser is used due to the lack of the original Appraiser availability, the substitute Appraiser must state they concur with the analysis and conclusions in the original appraisal report, and the Mortgagee must document in the case binder why the original Appraiser was not used;
- the Property has not declined in value;

- the building improvements that contribute value to the Property can be observed from the street or a public way;
- the Property meets Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) based on the original appraisal conditions;
- the appraisal update was performed by the Appraiser within one year from the effective date of the initial appraisal being updated; and
- the appraisal update is performed before the Disbursement Date.

(11) Appraisal Delivery – Electronic Appraisal Delivery (03/14/2022)

(a) Definition

The Electronic Appraisal Delivery (EAD) is a web-based platform where Mortgagees or their designated technology service providers electronically deliver FHA Single Family appraisal reports prior to endorsement.

(b) Standard

Mortgagees or their designated technology service providers must deliver appraisals through FHA's EAD portal.

(c) Required Documentation

Appraisals submitted through FHA's EAD portal are the appraisals required for endorsement.

b. General Mortgage Insurance Eligibility (11/10/2026)

i. Mortgage Purpose

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

(A) Purchase/Construction to Permanent

The Borrower may finance the purchase of an existing one- to four-unit residence, and may also finance construction of a one- to four-unit residence through a Construction to Permanent (CP) Mortgage.

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

(B) Rehabilitation

(1) 203(k) Standard and Limited Rehabilitation Mortgages

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance the outstanding indebtedness on the Structure and the Real Property on which the Structure is located; or
- purchase and rehabilitate the Structure and purchase the Real Property on which the Structure is located.

(2) 203(h) and 203(k) for Disaster Victims

The Section 203(h) Mortgage Insurance for Disaster Victims program allows FHA to insure Mortgages made by qualified Mortgagees to victims of a Presidentially-Declared Major Disaster Area (PDMDA) who have lost their housing, or whose housing was damaged and are in the process of rebuilding or buying another house.

(C) Refinance

A refinance transaction is used to pay off the existing debt or to withdraw equity from the Property with the proceeds of a new Mortgage for a Borrower with legal title to the subject Property.

Types of Refinances

FHA insures several different types of refinance transactions:

1. Cash-out refinances are designed to pull equity out of the Property.
2. No cash-out refinances of FHA-insured and non FHA-insured Mortgages are designed to pay existing liens. These include: Rate and Term refinance, Simple Refinance, and Streamline Refinance.
3. Refinances for rehabilitation or repair (Section 203(k)).

ii. Borrower Eligibility

(A) General Borrower Eligibility Requirements

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

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

(1) Social Security Number

(a) Standard

Each Borrower must provide evidence of their valid SSN to the Mortgagee.

Exception

Individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved Nonprofit organizations are not required to provide an SSN.

(b) Required Documentation

The Mortgagee must:

- validate and document an SSN for each Borrower, co-Borrower, or Co-signer on the Mortgage by:
  - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through FHAC; and
  - examining the Borrower's original pay stubs; IRS Form W-2s, *Wage and Tax Statement*; valid Tax Returns obtained directly from the IRS; or other document relied upon to underwrite the Mortgage; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during Mortgage processing and underwriting using a service provider to verify the SSN with the SSA.

(2) Borrower Age Limits

The Borrower must be old enough to enter into a mortgage Note that can be legally enforced in the state, or other jurisdiction, where the Property is located. There is no maximum age limit for a Borrower.

(3) Borrower Minimum Decision Credit Score

(a) Definition

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

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

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

(b) Eligibility Standard

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

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

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

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

(5) Co-signer Requirements

Co-signers are liable for the debt and therefore, must sign the Note. Co-signers do not hold an ownership interest in the subject Property and therefore, do not sign the security instrument.

(6) Principal Residence in the United States

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

(7) Military Personnel Eligibility

(a) Standard

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

(b) Required Documentation

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

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

(8) Citizenship and Immigration Status

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

(9) Residency Requirements

The Mortgagee must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable documentation. A Social Security card is not sufficient to prove immigration or work status. The following categories of individuals are eligible for FHA-insured financing in accordance with the requirements set forth below:

(a) Permanent Residents

(i) Standard

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

(ii) Required Documentation

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

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

(b) Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau

(i) Standard

A Borrower with citizenship in the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

(ii) Required Documentation

For Borrowers who are citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau, the mortgage file must include evidence of such citizenship.

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

(a) Standard

Mortgagees are prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt, including deficiency Judgments and other debt associated with past FHA-insured Mortgages. Mortgagees are required to determine whether the Borrowers have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

(b) Verification

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

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

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

(c) Resolution

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

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

(d) Required Documentation

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

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

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

(12) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

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

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

(b) Verification

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

(c) Required Documentation

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

(13) Valid First Liens

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

(a) Consent of Non-borrowing Spouses

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

(b) Tax Liens

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

(14) Additional Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies

(a) Eligibility Criteria for a Mortgage for Nonprofit Organizations

(i) Standard

HUD-approved Nonprofit organizations may be eligible for FHA-insured Mortgages.

HUD-approved Nonprofit organizations are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence.

HUD-approved Nonprofit organizations may only obtain FHA-insured fixed rate Mortgages.

(ii) Required Documentation

A HUD-approved Nonprofit must be listed on the HUD Nonprofit Roster and intend to sell or lease the Property to Low- to Moderate-Income families.

(b) Eligibility Criteria for a Mortgage for State and Local Government Agencies

(i) Standard

State and local government agencies and instrumentalities of government may obtain FHA-insured financing provided:

- the agency has the legal authority to become the Borrower;
- the particular state or local government is not in bankruptcy; and
- there is no legal prohibition on obtaining a deficiency Judgment based solely on its status as a state and local government.

State and local government agencies are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence. State and local government agencies are not eligible for cash-out refinances.

State and local government agencies may only obtain FHA-insured fixed rate Mortgages.

(ii) Required Documentation

The Mortgagee must obtain an opinion from counsel verifying the legal status requirements of the agency.

State and local government agencies are not required to be listed on the HUD-approved Nonprofit roster.

(15) Eligibility Requirements for Living Trusts

(a) Property Held in Living Trusts

The Mortgagee may originate a Mortgage for a living trust for a Property held by the living trust, provided the beneficiary of the living trust is a Co-signer and will occupy the Property as their Principal Residence, and the trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the Property.

(b) Living Trusts and Security Instruments

(i) Standard

The name of the living trust must appear on the security instrument, such as the Mortgage, deed of trust, or security deed.

The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other Borrowers, if any, must also appear on the Note with the trust.

The name of the individual Borrower is not required to appear on the property deed or title.

(ii) Required Documentation

The Mortgagee must obtain a copy of the trust documentation.

(B) Excluded Parties

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

(1) Borrower

(a) Standard

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

(b) Required Documentation

The Mortgagee must check the HUD LDP List to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

The Mortgagee must check SAM and follow appropriate procedures defined by that system to confirm eligibility for participation.

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

(2) Other Parties to the Transaction

(a) Standard

A Mortgage is not eligible for FHA insurance if anyone participating in the mortgage transaction is listed on HUD's LDP List or in SAM as being excluded from participation in HUD transactions. This may include but is not limited to:

- seller (except where selling the Principal Residence)
- listing and selling real estate agent

- loan originator
- loan processor
- underwriter
- Appraiser
- 203(k) Consultant
- Closing Agent
- title company

(b) Required Documentation

The Mortgagee must check the HUD LDP List and SAM and follow appropriate procedures defined by that system to confirm eligibility for all participants involved in the transaction.

iii. Occupancy Types

(A) Principal Residence

(1) Definition

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

(2) Standard

(a) FHA Requirement for Owner Occupancy

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

203(k) Rehabilitation products may have different requirements for the length of time to occupy the Property.

(b) FHA-Insured Mortgages on Principal Residences

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

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

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

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

Policy Exceptions	Eligibility Requirements
Relocation	A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is: • relocating or has relocated for an employment-related reason; and • establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence. If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.
Increase in family size	A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.
Vacating a jointly-owned Property	A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.
Non-occupying co-Borrower	A non-occupying co-Borrower on an existing FHA-insured Mortgage may qualify for another FHA-insured Mortgage on a new Property to be their own Principal Residence. A Borrower with an existing FHA-insured Mortgage on their own Principal Residence may qualify as a non-occupying co-Borrower on other FHA-insured Mortgages.

(3) Required Documentation

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

(B) Secondary Residence

(1) Definition

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

(2) Standard

Secondary Residences are only permitted with written approval from FHA after a determination that:

- the Borrower has no other Secondary Residence;
- the Secondary Residence will not be a Vacation Home or be otherwise used primarily for recreational purposes;
- the commuting distance to the Borrower's workplace creates an undue hardship on the Borrower and there is no affordable rental housing meeting the Borrower's needs within 100 miles of the Borrower's workplace; and
- the maximum mortgage amount is 85 percent of the lesser of the appraised value or sales price.

(3) Required Documentation

The Mortgagee must demonstrate the lack of affordable rental housing, and include:

- a satisfactory explanation of the need for a Secondary Residence and the lack of available rental housing; and
- written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

(C) Investment Property

(1) Definition

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

(2) Standard

Investment Properties are not eligible for FHA insurance.

Exception

Investment Properties are eligible if the borrower is a HUD-approved nonprofit Borrower, or a state and local government agency, or an Instrumentality of Government.

Investment Properties are eligible for insurance under the HUD Real Estate Owned Purchasing product, except under the 203(k) program.

iv. Property Eligibility and Acceptability Criteria

(A) General Property Eligibility

The Property must be located within the U.S., Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

(1) Special Flood Hazard Areas

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

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone (zones beginning with the letter A or the letter V (a Coastal High Hazard Area)), and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or

- the improvements are, or are proposed to be, located within the Coastal Barrier Resources System (CBRS).

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the NFIP and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(a) Flood Insurance

(i) **Definitions**

Flood Insurance refers to insurance provided by an NFIP or a Private Flood Insurance (PFI) policy that covers physical damage by floods.

An NFIP policy refers to insurance managed by the Federal Emergency Management Agency (FEMA) that covers physical damage by floods.

A PFI policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

(ii) Standard

Eligible Properties

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

Required Flood Insurance Coverage

For Properties located within an SFHA, Flood Insurance must be maintained for the life of the Mortgage in an amount at least equal to the lowest of the following:

- 100 percent replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost;
- the maximum amount of NFIP insurance available with respect to the particular type of Property; or
- the outstanding principal balance of the Mortgage.

Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of Property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar nonapplicability provisions, as under a standard Flood Insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance

coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(iii) Private Flood Insurance Policy Compliance Aid

Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: "This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages."

Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. In the absence of the PFI Policy Compliance Aid within the policy, a Mortgagee may review the policy to determine if it meets FHA requirements or rely on the insurance agent or carrier to separately provide the PFI Policy Compliance Aid language.

(iv) Required Documentation

For Properties located within an SFHA, the Mortgagee must include in the case binder:
- a Life of Loan Flood Certification for all Properties;
- if applicable, include a:
  - FEMA Letter of Map Amendment (LOMA);
  - FEMA Letter of Map Revision (LOMR); or
  - FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152); and
- a copy of the certificate of Flood Insurance or complete copy of the Flood Insurance policy, if required.

(v) Required Reporting

The Mortgage must report the required Flood Insurance information in the insurance application screen in FHAC.

(b) Eligibility for New Construction in SFHAs

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in an SFHA, the Property is not eligible for FHA mortgage insurance, unless the Mortgagee:

- obtains a FEMA-issued final LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152). The Elevation Certificate must document that the lowest floor of the residential building, including the basement, and all related Structures or equipment essential to the Property Value are built above the 100-year flood elevation in compliance with the NFIP criteria; and
- ensures the Borrower obtains Flood Insurance.

(c) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, Flood Insurance must be obtained.

(d) Eligibility for Condominiums in SFHAs

The Mortgagee must ensure the Condominium Association obtains Flood Insurance on buildings located within the SFHA. The Flood Insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(e) Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling and related Structures or equipment essential to the Property Value for both new and existing Manufactured Homes is located in an SFHA, the Property is not eligible for FHA mortgage insurance, unless the Mortgagee:

- obtains a FEMA-issued LOMA or LOMR that removes the Property from the SFHA; or

- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation; and
- ensures the Borrower obtains Flood Insurance.

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

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

(2) Seller Must Be Owner of Record

(a) Standard

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

(b) Required Documentation

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

Such documentation may include, but is not limited to:

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

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

(3) Restrictions on Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value.

(a) Definition

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

(b) Standard

(i) Time Restriction on Transfers of Title

The eligibility of a Property for a Mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the Property and the resale date.

The Seller's Date of Acquisition refers to the date the seller acquired legal ownership of that Property. The Resale Date refers to the date all parties have executed the sales contract that will result in the FHA-insured Mortgage for the resale of the Property.

(ii) Restriction on Resales Occurring 90 Days or Fewer after Acquisition

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

(iii) Resales Occurring between 91 Days and 180 Days after Acquisition

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

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

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

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

(iv) Exceptions to Time Restrictions on Resale

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- resales by HUD under its REO program;
- sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies;
- sales of Properties by nonprofits approved to purchase HUD-owned Single Family Properties at a discount with resale restrictions;
- sales of Properties that are acquired by the seller by inheritance;

- sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSE);
- sales of Properties by local and state government agencies; and
- sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

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

(c) Required Documentation

The Mortgagee must obtain a 12 month chain of title documenting compliance with time restrictions on resales.

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

(a) Standard

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

(b) Required Documentation

The Mortgagee must obtain a completed form HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property,* for each Mortgage secured by:

- a one-unit Single Family dwelling with an Accessory Dwelling Unit (ADU);
- a two- to four-unit dwelling; or
- a Single Family dwelling that is one of a group of five or more dwellings owned by the Borrower within a two block radius.

(5) Mixed Use of Property

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

- a minimum of 51 percent of the entire building square footage is for residential use; and
- the commercial use will not affect the health and safety of the occupants of the residential Property.

(6) Property Assessed Clean Energy

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements for residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government rather than paid directly by the Borrower to the party providing the PACE financing.

Generally, the PACE obligation is also secured in the same manner as a special assessment tax against the Property. In the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation will continue with the Property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished.

Properties which will remain encumbered with a PACE obligation are not eligible for FHA mortgage insurance.

(7) Dwelling Unit Limitation

(a) Standard

If the Mortgage will be secured by an Investment Property, including Mortgages for Governmental Entities or nonprofit Borrowers, the Borrower may not have a financial interest, regardless of the ownership or financing type, in more than seven Dwelling Units within a two block radius. In determining the number of Dwelling Units owned by the Borrower, the Mortgagee must count each Dwelling Unit in a two-, three-, and four-family Property.

(b) Required Documentation

If the Borrower owns six or more units within a two block radius, a map must be provided disclosing the locations of the units as evidence of compliance with FHA's seven unit limitation.

(B) Property Types

FHA's programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated in this Handbook 4000.1, FHA's Single Family programs are limited to one- to four-family Properties that are owner-occupied Principal Residences. FHA insures Mortgages on Real Property secured by:

- detached or semi-detached dwellings

- Manufactured Housing
- townhouses or row houses
- individual units within FHA-Approved Condominium Projects

FHA will not insure Single Family Mortgages secured by:

- commercial enterprises
- boarding houses
- hotels, motels and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- Vacation Homes
- fraternity and sorority houses

(1) One-Unit

A one-unit Property is a Single Family residential Property with a single Dwelling Unit, or with a single Dwelling Unit and a single ADU.

(2) Two-Unit

(a) Definition

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

(b) Standard

The Mortgagee must obtain a completed form HUD-92561.

(3) Three- to Four-Unit

(a) Definition

A three- to four-unit Property is either:

- a Single Family residential Property with three or four individual Dwelling Units; or
- a Single Family residential Property with two individual Dwelling Units and one ADU or three individual Dwelling Units and one ADU.

(b) Standard

The Mortgagee must obtain a completed form HUD-92561.

(c) Self-Sufficiency Rental Income Eligibility

(i) Definition

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

(ii) Standard

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

(iii) Calculation

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

(4) Accessory Dwelling Unit

(a) Definition

An Accessory Dwelling Unit (ADU) refers to a single habitable living unit with means of separate ingress and egress that meets the Minimum Requirements for Living Unit. An ADU is a private space that is subordinate in size and can be added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate.

(b) Standard

A Single Family residential one-unit Property with a single ADU remains a one-unit Property. For any Single Family residential Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.

(5) Condominium Unit

(a) Definitions

Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

A Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

(b) Standard

A Condominium Unit must be either located within an FHA-approved Condominium Project, meet FHA's definition of a Site Condominium, or have completed the FHA Single-Unit Approval process before a Mortgage can be insured.

(6) Site Condominiums

(a) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse-style) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

Manufactured Housing condominium units may not be processed as Site Condominiums.

(b) Standard

The Unit owner must be responsible for all required insurance and maintenance costs associated with the Unit dwelling, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(7) Manufactured Housing

(a) Definition

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional eligibility standards prescribed in Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages.

A Manufactured Home refers to a single Dwelling Unit of Manufactured Housing.

(b) Standard

To be eligible for FHA mortgage insurance as a Single Family Title II Mortgage, all Manufactured Housing must:

- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;
- have the HUD Certification Label affixed or have obtained a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the Federal Manufactured Home Construction and Safety Standards;
- be classified as real estate (but need not be treated as real estate for purposes of state taxation);
- be built and remain on a permanent chassis;
- be designed to be used as a dwelling with a permanent foundation built in accordance with the Permanent Foundations Guide for Manufactured Housing (PFGMH); and
- have been directly transported from the manufacturer or the dealership to the site.

(c) Required Documentation

***(i)* HUD Certification Label**

If the appraisal indicates the HUD Certification Label is missing from the Manufactured Housing unit, the Mortgagee must obtain label verification from the Institute for Building Technology and Safety (IBTS).

***(ii)* PFGMH Certification**

The Mortgagee must obtain a certification by an engineer or architect, who is licensed/registered in the state where the Manufactured Home is located, attesting to compliance with the PFGMH.

The Mortgagee may obtain a copy of the foundation certification from a previous FHA-insured Mortgage, showing that the foundation met the guidelines published in the PFGMH that were in effect at the time of certification, provided there are no alterations and/or observable damage to the foundation since the original certification.

If the Appraiser notes additions or alterations to the Manufactured Housing unit, the Mortgagee must ensure the addition was addressed in the foundation certification.

If the additions or alterations were not addressed in the foundation certification, the Mortgagee must obtain:

- an inspection by the state administrative agency that inspects Manufactured Housing for compliance; or
- certification of the structural integrity from a licensed structural engineer if the state does not employ inspectors.

(C) Property Valuation

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

(1) Integrity of Valuation Process: Communications with Mortgagees

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

(a) Standard

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

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

(b) Exception for Smaller Mortgagees

When absolute lines of independence cannot be achieved because of the Mortgagee's small size and limited staff, the Mortgagee must clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its mortgage production process.

(2) Communications with Third Parties

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

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

As the on-site representative for the Mortgagee, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which include HUD's MPR or MPS.

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

v. Legal Restrictions on Conveyance (Free Assumability)

The Mortgagee must determine that any legal restrictions on conveyance conform with the requirements in 24 CFR § 203.41.

In accordance with 24 CFR § 203.41 (d)(1)(ii), FHA considers a reasonable share of appreciation to be at least 50 percent. HUD does not object to affordable housing programs whereby the homeowner's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation. If the program sets a maximum sales price restriction, the Borrower must be permitted to retain 100 percent of the appreciation.

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

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

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

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

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

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

2. Allowable Mortgage Parameters

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

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

a. Maximum Mortgage Amounts (01/01/2026)

A Mortgage that is to be insured by FHA cannot exceed the Nationwide Mortgage Limits.

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

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

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

For refinance transactions:

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

i. National Housing Act's Statutory Limits

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

ii. Nationwide Mortgage Limits

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

The National Housing Act establishes the Nationwide Mortgage Limits. These limits will be set at or between the low-cost area and high-cost area limits based on the median house prices for the area.

Any requests to change Mortgage Loan limits determined by HUD must be received by FHA no later than 30 Days from the publication of the limits each year. Any changes in area Mortgage Loan limits as a result of valid appeals will be retroactively in effect for case numbers assigned on or after January 1 of each year.

Each request to change Mortgage Loan limits must contain sufficient housing sales price data, listing one-family Properties sold in an area within the 12-month look-back period, November through October of the previous year. Requests should differentiate between Single Family residential Properties, and condominiums or cooperative housing units. Ideally, the data provided should also distinguish between distressed and non-distressed sales. Requests for a change will only be considered for counties for which HUD does not already have home sales transaction data for the calculation of Mortgage limits.

All requests to change Mortgage Loan Limits must be submitted to FHA Resource Center via email at answers@hud.gov.

All requests must include in the subject line: Mortgage Loan Limit Requests.

iii. Financing of Upfront Mortgage Insurance Premium

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

iv. Calculating Maximum Mortgage Amounts on Purchases

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

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

v. Additions to the Mortgage Amount for Repair and Improvement

(A) Appraiser Required Repairs

A Mortgagee may add repair costs to the sales price before calculating the mortgage amount if:

- the repairs are required by the Appraiser to meet HUD's MPR;
- the repairs are paid for by the Borrower; and
- the sales contract or addendum identifies the Borrower as the party responsible for payment and completion of the repairs.

The maximum amount of repair costs that may be added to the sales price is the lesser of:

- the amount by which the value of the Property exceeds the sales price;
- the Appraiser's estimate of repairs; or
- the amount of the contractor's bid.

(B) Energy-Related Weatherization Repairs and Improvements

A Mortgagee may add energy-related weatherization costs, to be paid for by the Borrower, in accordance with Weatherization policies.

(C) Solar Energy Systems

A Mortgagee may add the cost of a solar energy system (including active and passive solar- and wind-driven systems) to the Mortgage in accordance with Solar and Wind Technologies policies.

When adding the cost of a solar energy system to the mortgage amount, the maximum insurable mortgage limit may be exceeded by up to 20 percent.

b. Loan-to-Value Limits (02/16/2021)

The maximum LTV ratios vary depending upon the type of Borrower, type of transaction (purchase or refinance), program type, and stage of construction.

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

i. Loan-to-Value Limitations Based on Borrower's Credit Score (Applies to All Transactions)

The Mortgagee must review the credit report to determine the Borrower's Minimum Decision Credit Score (MDCS), except for Mortgages to be insured under Section 247, Section 248, Streamline Refinances, and Assumptions.

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

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

If the Borrower's Minimum Decision Credit Score is...	Then the Borrower is...
at or above 580	eligible for maximum financing
between 500 and 579	limited to a maximum LTV of 90%

ii. Purchase

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

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

(A) LTV Limitations Based on Identities of Interest

(1) Definitions

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

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

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

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

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

(3) Exceptions to the Maximum LTV

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

(a) Family Member Transactions

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

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

(b) Builder's Employee Purchase

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

(c) Corporate Transfer

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

(d) Tenant Purchase

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

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

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

(1) Definition

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

(2) Maximum LTV for Non-Occupying Borrower Transaction

For Non-Occupying Borrower Transactions, the maximum LTV is 75 percent. The LTV can be increased to a maximum of 96.5 percent if the Borrowers are Family Members, provided the transaction does not involve:

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

iii. Refinance

For refinance transactions, the maximum LTV is determined in accordance with refinance program-specific requirements.

iv. New Construction

For New Construction transactions, the maximum LTV is determined in accordance with New Construction program-specific requirements.

c. Required Investment (09/14/2015)

i. Total Required Investment

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

ii. Minimum Required Investment

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

d. Maximum Mortgage Term (09/14/2015)

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

e. Mortgage Insurance Premiums (09/14/2015)

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

i. Upfront Mortgage Insurance Premium

(A) Upfront Mortgage Insurance Premium Amount

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

The UFMIP charged for all amortization terms is 175 Basis Points (bps), unless otherwise stated in the applicable Programs and Products or in the MIP chart.

The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are added to the total cash settlement requirements. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than $1.

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

(B) Refund and Credit of Upfront Mortgage Insurance Premium

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

ii. Annual (or Periodic) Mortgage Insurance Premium

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

Calculation of the MIP

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

3. Underwriting the Property

The Mortgagee must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured Mortgage. The appraisal and Property must comply with the requirements in Appraiser and Property Requirements for Title II Forward and Reverse Mortgages. The appraisal must be reported in accordance with Acceptable Reporting Forms and Protocols.

a. Property Acceptability Criteria (11/10/2026)

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

i. Defective Conditions

The Mortgagee must evaluate the appraisal in accordance with the requirements for Defective Conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property. The Mortgagee may only approve a Property after the Mortgagee confirms that all defects reported by the Appraiser have been corrected.

ii. Minimum Property Requirements and Minimum Property Standards

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

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

Minimum Property Standards refer to regulatory requirements relating to the safety, soundness, and security of New Construction.

When the Appraiser's observation of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, the Mortgagee may obtain an inspection from a qualified entity to make the determination. Mortgagees must use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS. Mortgagees must also use professional judgment in determining when a Property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the Property, such that additional inspections and/or repairs are necessary.

The Mortgagee must confirm that the Property complies with the following eligibility criteria. If the Mortgage is to be insured under the 203(k) program, the Mortgagee must confirm that the Property will comply with the following eligibility criteria upon completion of repairs and improvements.

(A) Encroachment

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

(B) Overhead Electric Power

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

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

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

(C) Access to Property

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

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

(D) Onsite Hazards and Nuisances

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

(E) Abandoned Gas and Oil Well

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

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

(F) Minimum Requirements for Living Unit

The Mortgagee must confirm that each living unit contains:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- space adequate for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water;
- electricity adequate for lighting and for mechanical equipment used in the living unit; and
- kitchen facilities adequate for the preparation and cooking of food. Every living unit must have at least one area with kitchen facilities, which must include, at a minimum, a sink with potable running water and a stove utility hookup.

The Mortgagee must ensure that Appliances that are to remain and that contribute to the market value opinion are operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and Condominium Units. For Manufactured Housing requirements, see the Manufactured Housing section.

(G)Swimming Pools

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

(H)Structural Conditions

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

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

(I) Environmental

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

(J) Lead-Based Paint

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

(K) Methamphetamine Contamination

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

(L) Repair Requirements

The Mortgagee must determine which repairs must be made for a Property to be eligible for FHA-insured financing.

(M) Utility Services

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

(N) Water Supply Systems

(1) Public Water Supply System

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

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or

- the health authority with jurisdiction issues a public notice indicating that the water is unsafe.

(2) Individual Water Supply Systems (Wells)

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

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

If the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells, or artesian wells, the Property is not eligible for FHA mortgage insurance.

(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

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

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

	Individual Water Supply System for Minimum Property Requirements for Existing Construction*
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority

	Individual Water Supply System for Minimum Property Requirements for Existing Construction*
5	If the subject Property line is adjacent to residential Property then local well distance requirements prevail. If the subject Property is adjacent to nonresidential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum requirements for water wells:

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

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

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or locality. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(3) Shared Wells

The Mortgagee must confirm that a Shared Well:

- serves Properties that cannot feasibly be connected to an acceptable public or Community Water supply System;
- is capable of providing a continuous supply of water to involved Dwelling Units so that each Existing Construction Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for

Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);

- provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;
- has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- serves no more than four living units or Properties.

(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

For both New and Existing Construction, the Mortgagee must ensure that the shared well agreement complies with the guidance provided in the following table.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to "supplied" parties if the "supplying" party has no further need for the shared well system. ("Supplied" parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
15	Specify required cost sharing for: • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection and disinfection; • system component replacement due to wear, obsolescence, incrustation or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or locality. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(O) Individual Residential Water Purification Systems

(1) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(2) Standard

If a Property does not have access to a continuous supply of safe and potable water without the use of a water purification system, the Mortgagee must ensure that the Property has an individual residential water purification system as well as a service contract for the ongoing maintenance of the system, a plan approved by the local or state health authority, and an escrow account.

(a) Approved Equipment for Individual Residential Water Purification Systems

Water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local or state health authority. The Mortgagee must obtain a certification from a local or state health authority which certifies that:

- A point-of-entry or point-of-use water purification system is on the Property. If the system employs point-of use equipment, the purification system must be employed on each water supply source (faucet) serving the Property. Where point-of-entry systems are used, separate water supply systems carrying untreated water for flushing toilets may be constructed.
- The system is sufficient to ensure an uninterrupted supply of safe and potable water adequate to meet household needs.
- The water supply, when treated by the equipment, meets the requirements of the local or state health authority, and has been determined to meet local or state quality standards for drinking water. If neither state nor local standards are applicable, then quality must be determined in accordance with standards set by the Environmental Protection Agency (EPA) pursuant to the Safe Drinking Water Act in 40 CFR Parts 141–142.
- A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.

(b) Borrower Notice of Water Purification System

The Mortgagee must provide written notification to the Borrower that the Property has a hazardous water supply that requires treatment in order to

remain safe and acceptable for human consumption. The notification to the Borrower must identify specific contaminants in the water supply serving the Property, and the related health hazard arising from the presence of those contaminants.

The Mortgagee must ensure that the Borrower has received a written estimate of the maintenance and replacement costs of the equipment necessary to ensure continuous safe drinking water.

(c) Service Contract for Individual Residential Water Purification Systems

Before mortgage closing, the Mortgagee must ensure that the Borrower has entered into a service contract with an organization or individual specifically approved by the local or state health authority to carry out the provisions of the required plan for the servicing, maintenance, repair, and replacement of the water purification equipment.

(d) Approved Plan for Individual Residential Water Purification Systems

An approved plan is a contract entered into by the Borrower and Mortgagee and approved by the local or state health authority, and that sets out conditions as described below that must be met by the parties as a condition to insurance of the Mortgage by HUD.

The plan must set forth the respective responsibilities to be assumed by the Borrower and the Mortgagee, as well as the other entities who will implement the plan, such as the health authority and the service contractor. In particular:

- The plan must set out the responsibilities of the health authority for monitoring and enforcing the performance of the service contractor, including any successor contractor that the health authority may later have occasion to name. By its approval of the plan, the health authority documents its acceptance of these responsibilities, and the plan should so indicate.
- The plan must provide for the monitoring of the operation of the water purification equipment, as well as for servicing (including disinfecting) and repairing and replacing the system as frequently as necessary, taking into consideration the system's design, anticipated use, and the type and level of contaminants present. Installation, servicing, repair, and replacement of the water purification system must be performed by an individual or organization approved for this purpose by the local or state health authority and identified in the plan. The plan must refer to specific terms and conditions of the required service contract.
- Under the plan, responsibility for monitoring the performance of the service contractor and for ensuring that the water purification system is

properly serviced, repaired, and replaced rests with the local or state health authority that approved the plan. The plan must confer on the health authority all powers necessary to effect compliance by the service contractor. The health authority's powers must include the authority to notify the Borrower of any noncompliance by the service contractor. The plan must provide that upon any notification of noncompliance received from the health authority, the Borrower may discharge the service contractor for cause and appoint a successor organization or individual as service contractor.

- The Mortgagee must ensure that any plan developed in accordance with this section must provide that an analysis of the water supply must be obtained from the local or state health authority no less frequently than annually, but more frequently if determined at any time to be necessary by the health authority or by the service contractor.

The plan must provide that if the dwelling served by the water purification system is refinanced, or is sold or otherwise transferred with a HUD-insured Mortgage, the plan will:

- continue in full force and effect;
- impose an obligation on the Borrower to notify any subsequent purchaser or transferee of the necessity for the water purification system and for its proper maintenance, and of the obligation to make escrow payments; and
- require the Borrower to furnish the purchaser with a copy of the plan before any sales contract is signed.

(e) Escrow for Maintenance and Replacement of Individual Residential Water Purification Systems

The Mortgagee must establish and maintain an escrow account to ensure proper servicing, maintenance, repair, and replacement of the water purification equipment. To the extent permitted under RESPA, the amount to be collected and escrowed by the Mortgagee must be based upon information provided by the manufacturer for the maintenance and replacement of the water purification equipment and for other charges anticipated by the service contractor. The initial monthly escrow amount must be stated in the plan. Disbursements from the account will be limited to costs associated with the normal servicing, maintenance, repair, or replacement of the water purification equipment. Disbursements may only be made to the service contractor or its successor, to equipment suppliers, to the local or state health authority for the performance of testing or other required services, or to another entity approved by the health authority. The Mortgagee must maintain the escrow account as long as water purification remains necessary and the Mortgage is insured by HUD.

The Mortgagee must provide the Borrower with the Water Purification Equipment Rider for signature.

(3) Required Documentation

(a) Borrower Notice of Water Purification System

A copy of the notification statement (including cost estimates), dated before the date of the sales contract and signed by the prospective Borrower to acknowledge its receipt, must accompany the submission for insurance endorsement. If a sales contract is signed in advance of the disclosure required by this paragraph, an addendum must be executed after the information is provided to the prospective Borrower and after they have acknowledged receipt of the disclosure.

(b) Borrower's Certification of Water Purification System

At the time the application is signed, the Borrower must sign a certification acknowledging that the Property has a water purification system that must be maintained.

(c) Approved Plan for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the approved plan is provided to HUD.

(d) Service Contract for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the service contract signed by the Borrower is provided to HUD.

(e) Water Purification Equipment Rider for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the Water Purification Equipment Rider is provided to HUD.

(P) Sewage System

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

When the Onsite Sewage Disposal System is not sufficient and an off-site system is available, the Mortgagee must confirm connection to an off-site sewage system.

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

(Q) Termites

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

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

(R) Special Airport Hazards

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower's acknowledgment of the hazard.

If a New Construction Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the Property for insurance.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

iii. Minimum Required Repairs

When the appraisal report or inspection from a qualified entity indicates that repairs are required to make the Property meet HUD's MPR or MPS, the Mortgagee must comply with Repair Requirements.

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

iv. Leased Equipment

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

v. Quality of Appraisal

The Mortgagee must evaluate the appraisal and ensure it complies with the requirements in Valuation and Reporting Protocols, and any additional appraisal requirements that are specific to the subject Property.

vi. Appraisal Review

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

vii. Chain of Title

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

viii. Opinion of Market Value

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

ix. Reconsideration of Value

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

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

b. Required Documentation for Underwriting the Property (08/19/2024)

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

If the Appraiser is being utilized to provide evidence of completion of repair(s) or condition(s) noted in the original appraisal report, Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*, Certification of Completion must be used.

c. Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value* (09/14/2015)

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

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

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

a. Underwriting with an Automated Underwriting System (11/10/2026)

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

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

i. Use of TOTAL Mortgage Scorecard [Text was deleted in this section.]

All transactions must be scored through TOTAL Mortgage Scorecard, except Streamline Refinance transactions, assumptions, Mortgages made to nonprofit/Governmental Entity Borrowers, and Mortgages made to Borrowers who do not have Social Security Numbers (SSN), but who are otherwise eligible under the Social Security Number requirements.

If the file receives an Accept, the Mortgagee must underwrite the transaction in accordance with the guidance in this Underwriting the Borrower Using the TOTAL Mortgage Scorecard section.

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the Final Underwriting Decision.

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

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

iii. Function of TOTAL Mortgage Scorecard

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

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

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

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

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

(A) Automated Underwriting System Data Entry Requirements

(1) Mortgagees

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

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

The Borrower's total Mortgage Payment includes:

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

(a) Section 8 Housing Choice Voucher

The Mortgagee may deduct the amount of the Section 8 Housing Choice Voucher if it is paid directly to the Servicer.

(b) Abated Real Estate Taxes

Where real estate taxes are abated, Mortgagees may use the abated amount provided that (1) the Mortgagee can document the abated amount with the taxing authority and (2) the abatement will remain in place for at least the first three years of the Mortgage.

(c) Temporary Interest Rate Buydowns

The Mortgagee must use the Note rate when calculating principal and interest for Mortgages that involve a temporary interest rate buydown.

(2) Sponsored Third-Party Originators

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

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

(B) New Versions of TOTAL Mortgage Scorecard

From time to time, FHA will release new versions of TOTAL Mortgage Scorecard. FHA will announce the date that the new version will be available. All Mortgages being scored for the first time will be scored using the new version. For Mortgages with a case number, the Mortgages will be scored using the version that was effective when the case number was assigned. Existing Mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All Mortgages without a case number will be scored using the new version 90 Days after the new version is implemented.

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

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

(A) Accept/Eligible

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

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

(B) Accept/Ineligible

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

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

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

(C) Refer

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

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

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

- the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;
- additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
- the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts;
- the date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;

- the Mortgage Payment history, for any mortgage trade line reported on the credit report used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History (TOTAL);
- the Borrower has Undisclosed Mortgage Debt (TOTAL) that requires a downgrade; or
- business income shows a greater than 20 percent decline over the analysis period.

vi. Applicability of Automated Underwriting System Rules (TOTAL)

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

vii. TOTAL Mortgage Scorecard Tolerance Levels for Rescoring

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

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

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

b. Credit Requirements (TOTAL) (04/10/2025)

i. General Credit Review Requirements (TOTAL)

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

The Mortgagee must also obtain a credit report for a non-borrowing spouse if the Borrower resides in a community property state, or if the subject Property is located in a community property state, except when excluded by state law.

The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-

borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

ii. Credit Reports (TOTAL)

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

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

(A) Requirements for the Credit Report (TOTAL)

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

The credit report must include:

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

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

The credit report must also include:

- all inquiries made within the last 90 Days
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
  - bankruptcies
  - Judgments
  - lawsuits
  - foreclosures
  - tax liens
- for each Borrower debt listed:
  - the date the account was opened
  - high credit amount
  - required payment amount

- unpaid balance
- payment history

(B) New Credit Report (TOTAL)

The Mortgagee must obtain a new credit report and rescore the Mortgage through TOTAL if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

iii. Evaluating Credit History (TOTAL)

The Mortgagee must analyze the Borrower's credit history in accordance with the Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL) section.

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

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

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

(B) Disputed Derogatory Credit Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

Exclusions from cumulative balance include:

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

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

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

(1) Definition

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

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

(2) Required Documentation and Standard

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

Non-derogatory disputed accounts are excluded from the $1,000 cumulative balance limit.

(D) Judgments (TOTAL)

(1) Definition

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

(2) Standard

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

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

Exception

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

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

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

(3) Required Documentation

The Mortgagee must provide the following documentation:

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

(E) Inaccuracy in Debt Considered (TOTAL)

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

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

(F) Bankruptcy (TOTAL)

(1) Standard

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

(2) Required Documentation

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

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

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

(H) Foreclosure (TOTAL)

(1) Standard

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

(2) Required Documentation

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

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

(1) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

(2) Standard

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

(3) Required Documentation

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

(J) Credit Counseling/Payment Plan (TOTAL)

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

No explanation or other documentation is needed.

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

(1) Definition

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

(2) Standard

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

A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

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

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

- three or more late payments of greater than 30 Days;

- one or more late payments of 60 Days plus one or more 30-Day late payments;
- one payment greater than 90 Days late; or
- that the Borrower has made less than three consecutive monthly housing payments since completion of a mortgage Forbearance Plan.

For both purchase and no cash-out refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.

A Mortgage that has been granted forbearance must utilize the payment history in accordance with the Forbearance Plan for the time period of forbearance in determining late housing payments. Where any mortgage in forbearance will remain open after the closing of the new FHA-insured Mortgage, the Forbearance Plan must be terminated at or prior to closing. Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

(b) Cash-Out Refinance Transactions

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

- a current delinquency;
- any delinquency within 12 months of the case number assignment date; or
- the Borrower has made less than 12 consecutive monthly mortgage payments since completion of a mortgage Forbearance Plan.

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

Where a Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note, the Mortgage is not required to be downgraded to a Refer provided the Forbearance Plan is terminated at or prior to closing.

(3) Required Documentation [Text was deleted in this section.]

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the agreement term.

(L) Positive Rental Payment History (TOTAL)

(1) Definitions

Positive Rental Payment History refers to the on-time payment by a Borrower of all rental payments in the previous 12 months. A rental payment is considered to be on time when it is paid within the month due.

A First-Time Homebuyer refers to an individual who has not held an ownership interest in another property in the three years prior to the case number assignment. First-Time Homebuyer includes an individual who is divorced or legally separated and who has had no ownership interest in a Principal Residence (other than joint ownership interest with a spouse) during the three years prior to case number assignment.

(2) Standard

A Mortgagee may submit the transaction to TOTAL Mortgage Scorecard indicating a Positive Rental Payment History provided:

- the transaction is a purchase;
- at least one Borrower is identified as a First-Time Homebuyer;
- the Minimum Decision Credit Score (MDCS) is 620 or greater; and
- at least one Borrower has a documented history of a Positive Rental Payment History with monthly payments of $300 or more for the previous 12 months.

(3) Required Documentation

To verify the Borrower's Positive Rental Payment History, the Mortgagee must obtain a copy of the executed rental or lease agreement and one of the following:

- written verification of rent from a landlord with no Identity of Interest with the Borrower;
- 12 months' canceled rent checks;
- 12 months' bank or payment service statements documenting rents paid; or
- landlord reference from a rental management company.

Borrowers renting from a Family Member must provide a copy of the executed rental or lease agreement and 12 months' canceled checks or bank statements to demonstrate the Positive Rental Payment History.

iv. Evaluating Liabilities and Debts (TOTAL)

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

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

(A) General Liabilities and Debts (TOTAL)

The Mortgagee must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application (URLA)*, and required documentation.

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

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

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

The Mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.

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

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

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

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

(C) Undisclosed Mortgage Debt (TOTAL)

When an existing debt or obligation that is secured by a Mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the Mortgagee must obtain one of the following that reflects an acceptable mortgage payment history in accordance with Housing Obligations/Mortgage Payment History (TOTAL):

- a copy of the note and either:
  - a bank statement; or
  - canceled checks;
- a credit report supplement; or
- a verification of Mortgage.

The Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:

- a current delinquency;
- any delinquency within 12 months of the case number assignment date; or
- more than two 30 Day late payments within 24 months of the case number assignment date.

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

(D) Federal Debt (TOTAL)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

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

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

(4) Calculation of Monthly Obligation

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

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

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

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

The Mortgagee must verify and document the debt of the non-borrowing spouse except for obligations specifically excluded by state law.

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

If the Borrower resides in a community property state or the Property being insured is located in a community property state, and non-borrowing spouse obligations are not excluded by state law, the Mortgagee must obtain a credit report for the non-borrowing spouse to determine the debt-to-income ratio of the Borrower. The credit report for the non-borrowing spouse may be traditional or non-traditional.

(G) Deferred Obligations (TOTAL)

(1) Definition

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

(2) Standard

The Mortgagee must include deferred obligations in the Borrower's liabilities.

(3) Required Documentation

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

(4) Calculation of Monthly Obligation

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

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

(H) Student Loans (TOTAL)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(4) Calculation of Monthly Obligation **[Text was deleted in this section.]**

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

(I) Installment Loans (TOTAL)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must use the loan agreement or payment statement to document the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations (TOTAL) section.

(J) Revolving Charge Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

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

(K) 30-Day Accounts (TOTAL)

(1) Definition

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

(2) Standard

The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

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

(L) Contingent Liabilities (TOTAL)

(1) Definition

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

(2) Standard

The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Mortgagee verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments. When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.

(3) Calculation of Monthly Obligation

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

(4) Required Documentation

(a) Mortgage Assumptions

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

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months.

(c) Court-Ordered Divorce Decree or Other Court Order

The Mortgagee must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(M) Collection Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

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

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

(3) Required Documentation

The Mortgagee must provide the following documentation:

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

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

(N) Charge Off Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

(O) Private Savings Clubs (TOTAL)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

(Q) Obligations Not Considered Debt (TOTAL)

Obligations not considered debt include:

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

c. Income Requirements (TOTAL) (11/10/2026)

Definitions

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

Tax Return refers to a U.S. federal income tax return or, for Borrowers who reside in Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa and who are not required to file U.S. federal income taxes, the Mortgagee must obtain the equivalent tax filing for the territory (a territory tax return).

Standard

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

i. General Income Requirements (TOTAL)

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

The Mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's Tax Returns.

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

If FHA requires Tax Returns as required documentation for any type of Effective Income, the Mortgagee must also analyze the Tax Returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

If the income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document.

ii. Employment Related Income (TOTAL)

(A) Definitions

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2, *Wage and Tax Statement*.

Written Verification of Employment (WVOE) refers to a document-based employment verification obtained through a process involving human intervention, completed by the Mortgagee or a TPV vendor, based on information provided by the Borrower's employer through written communication.

Electronic Verification of Employment (EVOE) refers to a system-generated employment verification obtained through an automated process without human intervention, directly from the employer's payroll system, and obtained from a TPV vendor.

Reverification of Employment refers to a confirmation of a Borrower's current employment status obtained by the Mortgagee or a TPV vendor through independently verified direct contact with the Borrower's employer, which may be conducted verbally or through other communication methods.

(B) Standard

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

(C) Required Documentation

For all Employment related Income, the Mortgagee must verify the Borrower's most recent two years of employment and income, and document current employment using either the traditional or alternative method, and past employment as applicable.

(1) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment and income:

- the most recent pay stub and a WVOE covering two years; or
- an EVOE covering two years, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents.

Reverification of Employment must be completed within 10 Days prior to the date of the Note. Electronic reverification employment data must be current within 30 days of the date of the verification.

(2) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

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

Reverification of Employment must be completed within 10 Days prior to the date of the Note. Electronic reverification employment data must be current within 30 days of the date of the verification.

(3) Past Employment Documentation

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

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime, Bonus, or Tip Income).
- The Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

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

- IRS Form W-2(s);
- WVOE(s);
- EVOE(s), subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and/or
- evidence supporting enrollment in school or the military during the most recent two full years.

iii. Primary Employment (TOTAL) [Text was deleted in this section.]

(A) Definitions

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

(B) Standard

The Mortgagee may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

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

(2) Hourly

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

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

iv. Part-Time Employment (TOTAL) [Text was deleted in this section.]

(A) Definition

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

(B) Standard

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

(C) Calculation of Effective Income

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

v. Overtime, Bonus, or Tip Income (TOTAL)

(A) Definition

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

(B) Standard

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

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

(C) Calculation of Effective Income [Text was deleted in this section.]

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average Overtime, Bonus, or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus, or Tip Income has been earned; or
- the average Overtime, Bonus, or Tip Income earned over the previous year.

vi. Seasonal Employment (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

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

(D) Calculation of Effective Income

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

vii. Employer Housing Subsidy (TOTAL)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

The Mortgagee must verify and document the existence and the amount of the housing subsidy.

(D) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, the Mortgagee may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

viii. Employed by Family-Owned Business (TOTAL)

(A) Definition

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

(B) Standard

The Mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(C) Required Documentation

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

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

In addition to traditional or alternative documentation requirements, the Mortgagee must obtain copies of signed personal Tax Returns or tax transcripts.

(D) Calculation of Effective Income [Text was deleted in this section.]

(1) Salary

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

(2) Hourly

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

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

ix. Commission Income (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.

(D) Calculation of Effective Income [Text was deleted in this section.]

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- the average Commission Income earned over either:
  - the previous two years; or
  - the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous year.

x. Self-Employment Income (TOTAL) [Text was deleted in this section.]

(A) Definition

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

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

- sole proprietorships;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

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

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(2) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must downgrade and manually underwrite.

(C) Required Documentation

(1) Individual and Business Tax Returns

The Mortgagee must obtain complete individual Tax Returns for the most recent two years, including all schedules.

The Mortgagee must obtain the Borrower's business Tax Returns for the most recent two years unless the following criteria are met:

- individual Tax Returns show increasing Self-Employment Income over the past two years;
- funds to close are not coming from business accounts; and
- the Mortgage to be insured is not a cash-out refinance.

In lieu of signed individual or business Tax Returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, IRS Form 4506-C, or IRS Form 8821, and tax transcripts directly from the IRS.

(2) Profit & Loss Statements and Balance Sheets

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

If income used to qualify the Borrower exceeds the two-year average of Tax Returns, an audited P&L or signed quarterly Tax Return must be obtained from the IRS.

(D) Calculation of Effective Income

The Mortgagee must analyze the Borrower's Tax Returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Appendix 2.0 – Analyzing IRS Forms.

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

- the average gross Self-Employment Income earned over either:
  - the previous two years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or
- the average gross Self-Employment Income earned over the previous one year.

xi. Additional Required Analysis of Stability of Employment Income (TOTAL)
[Text was deleted in this section.]

(A) Frequent Changes in Employment

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

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

(B) Addressing Gaps in Employment

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

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

(C) Addressing Temporary Reduction in Income

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

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

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

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

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

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and

- documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through intended date of return to work with current employer.

xii. Other Sources of Effective Income (TOTAL)

(A) Disability Benefits (TOTAL)

(1) Definition

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

(2) Required Documentation

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

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

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

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

(a) Social Security Disability

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

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

(b) Department of Veterans Affairs Disability

For VA disability benefits, the Mortgagee must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

(c) Private Disability

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

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(3) Calculation of Effective Income

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

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

(1) Definition

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

(2) Required Documentation

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

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

The Mortgagee must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or Tax Returns.

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

(3) Calculation of Effective Income

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

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

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

(C) Military Income (TOTAL)

(1) Definition

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

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

The Mortgagee may not use military education benefits as Effective Income.

(2) Required Documentation

The Mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of

the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(3) Calculation of Effective Income

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

(D) Mortgage Credit Certificates (TOTAL)

(1) Definition

Mortgage Credit Certificates refer to government Mortgage Payment subsidies other than Section 8 Housing Choice Vouchers.

(2) Required Documentation

The Mortgagee must verify and document the amount of the tax rebate.

(3) Calculating Effective Income

Mortgage Credit Certificate income may be included as Effective Income. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(E) Section 8 Housing Choice Vouchers (TOTAL)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

The Mortgagee may only use Section 8 Housing Choice Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(F) Other Public Assistance (TOTAL)

(1) Definition

Public Assistance refers to income received from government assistance programs.

(2) Required Documentation

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

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

(3) Calculation of Effective Income

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

(G) Automobile Allowances (TOTAL)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

The Mortgagee must use the full amount of the Automobile Allowance to calculate Effective Income.

(H) Retirement Income (TOTAL)

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

(1) Social Security Income (TOTAL)

(a) Definition

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

(b) Required Documentation

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

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

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S.

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

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

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(c) Calculation of Effective Income

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

(2) Pension (TOTAL)

(a) Definition

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

(b) Required Documentation

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

The Mortgagee must obtain any one of the following documents:

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

(c) Calculation of Effective Income

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

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

(a) Definition

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

(b) Required Documentation

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

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

- Tax Returns; or
- the most recent bank statement evidencing receipt of income.

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k)

Income, the Mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

(I) Rental Income (TOTAL)

(1) Definition

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

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

(a) Standard

The Mortgagee may consider Rental Income from existing and prospective renters if documented in accordance with the following requirements.

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

No income from commercial space may be included in Rental Income calculations.

(b) Required Documentation

Documentation varies depending upon the length of time the Borrower has owned the Property and must meet one of the applicable documentation requirements below:

(i) Limited or No History of Rental Income

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

Two- to Four-Units

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

One-Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform*

Residential Appraisal Report (URAR), and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective leases.

One-Unit with an Accessory Dwelling Unit

The Mortgagee must verify and document the proposed Rental Income from the ADU by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report* (*URAR)*, and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective leases.

***(ii)* History of Rental Income**

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

For Properties owned less than two years, the Mortgagee must document the date of acquisition by providing a copy of the deed, Closing Disclosure, or other similar legal document.

(c) Calculation of Effective Income

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

***(i)* Limited or No History of Rental Income**

To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Mortgagee must use 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

One-Unit with an Accessory Dwelling Unit

The amount of the Rental Income from an ADU used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

(ii) History of Rental Income

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

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

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

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

(a) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met.

If Rental Income is being derived from a Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Mortgagee must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.

(b) Required Documentation

(i) Limited or No History of Rental Income

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

Two- to Four-Units

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

One-Unit or One-Unit with an Accessory Dwelling Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report* (*URAR*), and a Fannie Mae Form

1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective leases.

(ii) History of Rental Income

The Mortgagee must obtain the Borrower's last two years' Tax Returns with Schedule E.

(c) Calculation of Effective Net Rental Income

(i) Limited or No History of Rental Income

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the Principal, Interest, Taxes, and Insurance (PITI) from 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

(ii) History of Net Rental Income

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

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

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

If the Property has been owned for less than two years, the Mortgagee must:

- annualize the Rental Income for the length of time the Property has been owned; and
- document the date of acquisition by providing the deed, Closing Disclosure, or similar legal document.

(4) Boarders of the Subject Property (TOTAL)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit. A renter of an ADU is not a Boarder.

(b) Standard

The Mortgagee may consider Rental Income from existing Boarders if documented in accordance with the following requirements.

Rental Income from Boarders may be considered Effective Income if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving Boarder income.

Rental Income from Boarders is permitted whether the Borrower currently rents or owns the Dwelling Unit.

(c) Required Documentation

The Mortgagee must verify and document the existing Rental Income from Boarders by obtaining the following:

- evidence of rental history over the previous 12 months;
- evidence of Rental Income received from Boarders for at least nine of the most recent 12 months in the form of:
  - the Borrower's Tax Returns; or
  - bank statements, canceled checks, or deposit slips, showing rental payments received;
- evidence that the Boarder's address is the same as the Borrower's address; and
- a copy of the executed written agreement documenting the boarding terms and the Boarder's intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

The Mortgagee must calculate Rental Income from Boarders by using the lesser of:

- the 12-month average; or
- the current rent as documented in the written agreement.

Where Rental Income from Boarders has been documented for at least nine of the last 12 months, the Mortgagee must average the Rental Income over a 12-month period.

The amount of the Rental Income from Boarders used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

(J) Investment Income (TOTAL)

(1) Definition

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

(2) Required Documentation

The Mortgagee must verify and document the Borrower's Investment Income by obtaining Tax Returns for the previous two years and the most recent account statement.

(3) Calculation of Effective Income

The Mortgagee must calculate Investment Income by using the lesser of:

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

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

(K) Capital Gains and Losses (TOTAL)

(1) Definition

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

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

(2) Standard

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

(3) Required Documentation

Three years' Tax Returns are required to evaluate an earnings trend. If the trend:

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

(L) Expected Income (TOTAL)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

The Mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the Mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

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

(M) Trust Income (TOTAL)

(1) Definition

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

(2) Required Documentation

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

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

(3) Calculation of Effective Income

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

(N) Annuities or Similar (TOTAL)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

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

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

(O) Notes Receivable Income (TOTAL)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income

fluctuates, the Mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(P) Nontaxable Income (Grossing Up) (TOTAL)

(1) Definition

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

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- Section 8 Housing Choice Vouchers;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

The Mortgagee must document and support the amount of income to be Grossed Up for any Nontaxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(3) Calculation of Effective Income

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

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

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

(Q) Foster Care Payment

(1) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(2) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(4) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:

- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

(R) Foreign Income

(1) Definition

Foreign Income refers to income received by a Borrower from sources located outside of the United States by a foreign corporation or a foreign government and is paid in foreign currency.

(2) Standard

The Mortgagee may use Foreign Income as Effective Income if the Borrower has received this income for the previous two years and it is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain complete individual Tax Returns showing Foreign Income for the most recent two years, including all schedules.

For all Foreign Income, the Mortgagee must satisfy the requirements listed based on source and type of income as outlined in Income Requirements (TOTAL).

If the Foreign Income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document and convert foreign currency to U.S. dollars.

(4) Calculation of Effective Income

The Mortgagee must analyze the Borrower's Tax Returns to determine gross Foreign Income. The Mortgagee must average the Foreign Income over the previous two years to calculate of Effective Income.

d. Asset Requirements (TOTAL) (11/10/2026)

i. General Asset Requirements (TOTAL)

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

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

(A) Earnest Money Deposit (TOTAL)

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

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct electronic verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with Gifts (Personal and Equity) (TOTAL).

(B) Cash to Close (TOTAL)

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

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

(1) Determining the Amount Needed for Closing

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

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

(2) Mortgagee Responsibility for Estimating Settlement Requirements

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

(a) Origination Fees and Other Closing Costs

The Mortgagee or sponsored TPO may charge a reasonable origination fee.

The Mortgagee or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs and prepaid items necessary to close the Mortgage. Charges may not exceed the actual costs.

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

(b) Discount Points

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

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

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

(d) Non-realty or Personal Property

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

(e) Upfront Mortgage Insurance Premium Amounts

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than $1.

(f) Real Estate Agent Fees

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

(g) Repairs and Improvements

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

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.

The funds derived from a premium priced Mortgage:

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

(i) Interested Party Contributions on the Closing Disclosure

The Mortgagee may apply Interested Party credits toward the Borrower's origination fees, other closing costs including any items Paid Outside Closing (POC), prepaid items, and Discount Points.

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

The Mortgagee must identify the total Interested Party credits on the front page of the Closing Disclosure or similar legal document or in an addendum. The Mortgagee must identify each item paid by Interested Party Contributions.

(j) Real Estate Tax Credits

Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting, without consideration of the real estate tax credit.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

(C) Reserves (TOTAL)

The Mortgagee must verify and document all assets submitted to the AUS.

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

Reserves do not include:

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

(1) Required Reserves for One-Unit with an Accessory Dwelling Unit Properties

If Rental Income is being used as Effective Income to qualify the Borrower, the Mortgagee must verify and document Reserves equivalent to two months' PITI after closing for one-unit with an ADU Properties.

(2) Required Reserves for Three- to Four-Unit Properties

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

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

(A) Definition

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

(B) Standard

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

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

While additional funds to close may be provided by one of these sources if permitted under the relevant requirements above, none of the Borrower's MRI may come from these sources. The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.

Additionally, in accordance with Prohibited Sources of Minimum Cash Investment Under the National Housing Act – Interpretive Rule, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the Borrower's MRI where the Governmental Entity is originating the insured Mortgage through one of its homeownership programs.

(C) Required Documentation

Where the Borrower's MRI is provided by someone other than the Borrower, the Mortgagee must also obtain documentation to support the permissible nature of the source of those funds.

To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the Mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the Mortgagee for the use of funds legally belonging to the Mortgagee to fund the Borrower's MRI.

The Mortgagee must obtain:

- a canceled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided toward the Borrower's MRI from the Governmental Entity's account; or
- a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided toward the Borrower's MRI were funds legally belonging to the Governmental Entity, when acting in their governmental capacity, at or before closing.

Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI legally belonged to the Governmental Entity at or before closing, by stating, for example:

- the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds toward the Borrower's MRI;
- the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds toward the Borrower's MRI; or
- the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds toward the Borrower's MRI.

While the Mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.

iii. Sources of Funds (TOTAL)

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

(A) Checking and Savings Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

For individual deposits of more than 50 percent of the total monthly Effective Income, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that the deposits are commensurate with the

Borrower's income and savings history and no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

(a) Traditional Documentation

The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

(b) Alternative Documentation

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

(B) Cash on Hand (TOTAL)

(1) Definition

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

(2) Standard

The Mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

(3) Required Documentation

The Mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;

- documented expenses; and
- history of using financial institutions.

(C) Retirement Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

(D) Stocks and Bonds (TOTAL)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

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

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

(3) Required Documentation

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

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

(E) Private Savings Clubs (TOTAL)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

(1) Definition

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

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;

- a charitable organization;
- a governmental agency or public entity that has a program providing homeownership assistance to:
  - low- or moderate-income families; or
  - first-time homebuyers.

Any Gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

(b) Donor's Source of Funds

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

(3) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Mortgagee must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below.

- For Gifts that will be verified prior to settlement, the Mortgagee must obtain one of the following:
  - the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account;
  - a copy of the donor's canceled check and evidence of deposit into the Borrower's account;
  - a copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
  - evidence of the electronic transfer of funds from the donor's account to the Borrower's account.
- For Gifts that will be verified at settlement, the Mortgagee must obtain one of the following evidencing payment to the settlement agent:
  - evidence of electronic transfer of funds from the donor's account;
  - bank certified check;
  - cashier's check; or
  - other official bank check.

- For Gifts of land, the Mortgagee must obtain:
  - proof of ownership by the donor; and
  - evidence of the transfer of title to the Borrower.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.

(b) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

(G) Interested Party Contributions (TOTAL)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third-Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs, prepaid items, and Discount Points. The 6 percent limit also includes:

- Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, prepaid items, and Discount Points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit, provided the Mortgagee or TPO is not the seller, real estate agent, builder, or developer.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(3) Required Documentation

The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

(H) Inducements to Purchase (TOTAL)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the purchase price;
- contributions exceeding the origination fees, other closing costs, prepaid items, and Discount Points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and

- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (TOTAL)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by FHA

(2) Sales Commission (TOTAL)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (TOTAL)

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent pro-rated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Downpayment Assistance Programs (TOTAL)

FHA does not "approve" downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does not allow nonprofit entities to provide Gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

The Mortgagee must ensure that a Gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a Gift that is to be used for all, or part, of a Borrower's downpayment, and the organization providing the Gift loses or gives up its federal tax-exempt status, FHA will recognize the Gift as an acceptable source of the downpayment provided that:

- the Gift is made to the Borrower;
- the Gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization

The Mortgagee is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the Tax Exempt Organization Search, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (TOTAL)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is

not considered a Gift or a grant even if it does not require regular payments or has other features forgiving the debt.

(1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL)

(a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 entities to be Instrumentalities of Government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the insured first Mortgage does not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (TOTAL);
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution. This provision does not apply to the Federal Home Loan Bank (FHLB) Homeownership Set-Aside Program.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The Mortgagee must enter information on HUD-approved Nonprofits into FHA Connection (FHAC), as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the Mortgage and Note; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information:
  - the FHA case number for the first Mortgage;
  - the complete property address;
  - the name, address and Taxpayer Identification Number (TIN) for the nonprofit;
  - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
  - the amount and purpose for the secondary financing provided to the Borrower; and
  - a statement indicating whether the secondary financing:
    - will close in the name of the Governmental Entity; or

- will be closed in the name of the nonprofit and held by the Governmental Entity.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Where a nonprofit meets the criteria identified in Section 115 of the IRC for exclusion of taxation, the nonprofit must provide one of the following:

- a letter from the organization's auditor;
- a written statement from the organization's General Counsel, as an official of the organization;
- a determination or ruling letter issued by the IRS; or
- an equivalent document evidencing Section 115 status.

(2) Secondary Financing Provided by HUD-Approved Nonprofits (TOTAL)

(a) Definition

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD-approved Nonprofits appear on the HUD Nonprofit Roster.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and

- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL).

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

The Mortgagee must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

(3) Family Members (TOTAL)

(a) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;
- if the Family Member providing the secondary financing borrows the funds, the lending source may not be an entity with an Identity of Interest in the sale of the Property, such as the:
  - seller;

  - builder;
  - loan originator; or
  - real estate agent;
- mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(b) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the Mortgage and Note.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the Mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Mortgagee.

(4) Private Individuals and Other Organizations (TOTAL)

(a) Definition

Private Individuals and Other Organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this Secondary Financing section.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;

- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the Nationwide Mortgage Limits;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the Mortgagee 30 Days advance notice.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

(K) Loans (TOTAL)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (TOTAL)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

(d) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (TOTAL)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

The Mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

The Mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (TOTAL)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA-insured Mortgage, and meet the requirements for Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

The Mortgagee must verify and document the promissory Note.

(L) Grants (TOTAL)

(1) Disaster Relief Grants (TOTAL)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

(2) Federal Home Loan Bank Homeownership Set-Aside Program (TOTAL)

(a) Standard

The Federal Home Loan Banks' (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Program is an acceptable source of downpayment assistance and may be provided as either a grant or secondary financing. If the AHP Set-Aside funds create a lien against the Property, all requirements in Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL) must be followed.

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements in Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

(b) Required Documentation

The Mortgagee must document the Borrower's receipt of the AHP Set-Aside Funds.

Regardless of whether the funds are provided as a grant or secondary financing, the Mortgagee must document that the Retention Agreement required by the FHLB is recorded against the Property. The Retention Agreement must result in a Deed Restriction when funds are provided as a grant. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (TOTAL)

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, prepaid items, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, the Mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The Mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

The Mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (TOTAL)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles.

(2) Standard

The Mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain cash for closing.

The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(O) Trade-In of Manufactured Home (TOTAL)

(1) Definition

Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

The Mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The Mortgagee must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (TOTAL)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Closing Disclosure or similar legal document.

The Mortgagee must also verify and document that it is an Arm's Length Transaction, and that the Borrower is entitled to the Net Sale Proceeds.

(Q) Real Estate Commission from Sale of a Subject Property (TOTAL)

(1) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

(2) Standard

Mortgagees may consider Real Estate Commissions from the Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

(3) Required Documentation

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from Sale of Subject Property being purchased.

(R) Sweat Equity (TOTAL)

(1) Definition

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the Property being purchased.

(2) Standard

The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the Source Requirements for the Borrower's Minimum Required Investment (TOTAL).

The Mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The Mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity.

Cash back to the Borrower is not permitted in Sweat Equity transactions.

(3) Required Documentation

For materials furnished, the Mortgagee must obtain evidence of the source of funds and the Market Value of the materials.

For labor, the Mortgagee must verify and document that the work will be completed in a satisfactory manner. The Mortgagee must also obtain evidence of Contributory Value of the labor either through an Appraiser's estimate, or a cost-estimating service.

- For labor on Existing Construction, the Mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible.)
- For labor on New Construction, the Mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction.

(S) Trade Equity (TOTAL)

(1) Definition

Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash investment.

(2) Standard

The amount of the Borrower's equity contribution is determined by:

- using the lesser of the Property's appraised value or sales price; and
- subtracting all liens against the Property being traded, along with any real estate commission.

If the Property being traded has an FHA-insured Mortgage, assumption processing requirements and restrictions apply.

(3) Required Documentation

The Mortgagee must obtain a residential appraisal report complying with FHA appraisal policy to determine the Property's value. The Mortgagee must also obtain the Closing Disclosure or similar legal document to document the sale of the Property.

(T) Rent Credits (TOTAL)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

The Mortgagee may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent toward the MRI.

(3) Required Documentation

The Mortgagee must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

e. Final Underwriting Decision (TOTAL) (11/10/2026) [Text was deleted in this section.]

The Mortgagee may approve the Mortgage as eligible for FHA insurance endorsement if:

- TOTAL Mortgage Scorecard rated the mortgage application as Accept;
- the underwriter underwrote the appraisal according to standard FHA requirements;
- the Mortgagee reviewed the TOTAL Mortgage Scorecard findings, and verified that all information entered into TOTAL Mortgage Scorecard is consistent with mortgage documentation, and is true, complete, and accurate; and
- the Mortgage meets all FHA requirements applicable to Mortgages receiving a rating of Accept from TOTAL Mortgage Scorecard.

While TOTAL Mortgage Scorecard is available for Mortgagees to use in their pre-qualification process of mortgage applicants, the Mortgagee must score the Mortgage at least once after assignment of an FHA case number. FHA will not recognize the risk assessment nor will information be carried from TOTAL Mortgage Scorecard to FHAC for endorsement processing, without an FHA case number. It is imperative that the Mortgagees make certain that they enter the FHA case number into their Loan Origination System or AUS as soon as it is known. This will ensure a more efficient endorsement process.

i. Documentation of Final Underwriting Review Decision (TOTAL)

The Mortgagee must complete the following documents to evidence their final underwriting decision.

(A) Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*

On form HUD-92900-LT, the Mortgagee must:

- indicate the CHUMS ID of the underwriter who reviewed the appraisal;
- complete the Risk Assessment; and
- enter the identification of "ZFHA" in the CHUMS ID.

When the Feedback Certificate indicates "Accept/Ineligible," the Mortgagee must document the circumstances or other reasons that were evaluated in making the decision to approve the Mortgage in the Remarks section.

(B) Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*

The underwriter must confirm that form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* is completed as directed in the form instructions.

(C) Form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*

The Mortgagee must complete form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*, as directed in the form instructions.

An authorized officer of the Mortgagee, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

ii. Conditional Approval (TOTAL)

The Mortgagee must condition the approval of the Borrower on the completion of the final *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-A.

iii. Notification of Borrower of Approval and Term of the Approval (TOTAL)

The Mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the *Firm Commitment* is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

5. Manual Underwriting of the Borrower [Text was deleted in this section.]

The Mortgagee must manually underwrite those applications where the AUS issues a Refer or applications which were downgraded to a manual underwrite.

a. Credit Requirements (Manual) (11/10/2026)

i. General Credit Requirements (Manual)

FHA's general credit policy requires Mortgagees to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

The Mortgagee must either obtain a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

The Mortgagee must utilize the same credit report and credit scores sent to TOTAL.

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

The Mortgagee must obtain a credit report for a non-borrowing spouse if the Borrower resides in a community property state, or if the subject Property is located in a community property state, except when excluded by state law. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

The Mortgagee is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions.

ii. Types of Credit History (Manual)

If a traditional credit report is available, the Mortgagee must use a traditional credit report. However, if a traditional credit report is not available, the Mortgagee must develop the Borrower's credit history using the requirements for Non-traditional and Insufficient Credit (Manual).

(A) Traditional Credit (Manual)

If the TRMCR or RMCR generates a credit score, the Mortgagee must utilize traditional credit history.

(1) Requirements for the Credit Report

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

The credit report must include:

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

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

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
  - bankruptcies;
  - Judgments;
  - lawsuits;
  - foreclosures; and
  - tax liens; and
- for each Borrower debt listed:
  - the date the account was opened;
  - high credit amount;
  - required monthly payment amount;
  - unpaid balance; and
  - payment history.

(2) Updated Credit Report or Supplement to the Credit Report

The Mortgagee must obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

(3) Credit Information Not Listed on Credit Report

A Mortgagee must develop credit information separately for any open debt listed on the mortgage application but not referenced in the credit report by using the procedures for Independent Verification of Non-traditional Credit Providers.

(4) Specific Requirements for Residential Mortgage Credit Report

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the Borrower's employment history;
- verify each Borrower's current employment and income through an interview with the Borrower's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each Borrower and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

(B) Non-traditional and Insufficient Credit (Manual)

For Borrowers without a credit score, the Mortgagee must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below.

(1) Non-Traditional Mortgage Credit Report

(a) Definition

A Non-Traditional Mortgage Credit Report (NTMCR) refers to a type of credit report designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report.

(b) Standard

An NTMCR is used either as:

- a substitute for a TRMCR or an RMCR; or
- a supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

Mortgagees may use an NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the Borrower; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the:

- creditor's name;
- date of opening;
- high credit;
- current status of the account;
- 12-month history of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (for example, 0x30 and 0x60).

(2) Independent Verification of Non-traditional Credit Providers

The Mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

To verify the existence of each credit provider, the Mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.

To verify credit information, the Mortgagee must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
- obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the Borrower's rental payment history, the Mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(3) Sufficiency of Credit References

To be sufficient to establish the Borrower's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;

- water;
- television service; or
- internet service.

If the Mortgagee cannot obtain all three credit references from the list above, the Mortgagee may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);
- payment to child care providers made to businesses that provide such services;
- school tuition;
- retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
- rent-to-own (for example, furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
  - were made at least quarterly;
  - were not payroll deducted, and;
  - caused no Insufficient Funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

iii. Evaluating Credit History (Manual)

(A) General Credit (Manual)

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.

The Mortgagee must not consider the credit history of a non-borrowing spouse.

(B) Types of Payment Histories (Manual)

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) Revolving Charge Accounts.

(1) Satisfactory Credit

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for

the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on Revolving Charge Accounts in the previous 12 months.

Major derogatory credit on Revolving Charge Accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

(2) Payment History Requiring Additional Analysis

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

The Mortgagee must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

(C) Housing Obligations/Mortgage Payment History (Manual)

(1) Definition

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

(2) Standard

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

A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

The Mortgagee must determine the Borrower's Housing Obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);

- verification of Mortgage received directly from the Servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Mortgagee must verify and document the previous 12 months' housing history. For Borrowers who indicate they are living rent-free, the Mortgagee must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.

For both purchase and no cash-out refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.

A Mortgage that was subject to mortgage payment forbearance must utilize the Mortgage Payment history in accordance with the Forbearance Plan for the time period of the forbearance in determining late housing payments.

Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

(3) Required Documentation [Text was deleted in this section.]

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

(D) Collection Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

The Mortgagee must document reasons for approving a Mortgage when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

(E) Charge Off Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must determine if Charge Off Accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

The Mortgagee must document reasons for approving a Mortgage when the Borrower has any Charge Off Accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

(F) Disputed Derogatory Credit Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items may be excluded from consideration in the underwriting analysis:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Mortgagee includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

(3) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(G) Judgments (Manual)

(1) Definition

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

(2) Standard

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

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

Regardless of the amount of outstanding Judgments, the Mortgagee must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower

cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

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

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

(3) Required Documentation

The Mortgagee must provide the following documentation:

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

(H) Bankruptcy (Manual)

(1) Standard: Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Mortgage if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During the most recent two years, the Borrower must have:

- reestablished good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

- can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(2) Standard: Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Mortgage, if at the time of case number assignment at least 12 months of the payout period under the bankruptcy has elapsed.

The Mortgagee must determine that during the most recent 12 months, the Borrower's payment performance has been satisfactory and all required payments have been made on time; and the Borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

(3) Required Documentation

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

The Mortgagee must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

(I) Foreclosure and Deed-in-Lieu of Foreclosure (Manual)

(1) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if the Borrower had a foreclosure or a DIL of Foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing entity/designee.

Exceptions

The Mortgagee may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has reestablished good credit since the foreclosure.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the foreclosure or DIL of Foreclosure, the Mortgagee must obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.

If the foreclosure or DIL of Foreclosure was the result of a circumstance beyond the Borrower's control, the Mortgagee must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(J) Pre-Foreclosure Sales (Short Sales) (Manual)

(1) Definition

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

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if they relinquished a Property through a Short Sale within three years from the date of case number assignment.

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

(a) Exception for Borrower Current at the Time of Short Sale

A Borrower is considered eligible for a new FHA-insured Mortgage if, from the date of case number assignment for the new Mortgage:

- all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- installment debt payments for the same time period were also made within the month due.

(b) Exception for Extenuating Circumstances

The Mortgagee may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has reestablished good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the Short Sale, the Mortgagee must obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.

If the Short Sale was the result of a circumstance beyond the Borrower's control, the Mortgagee must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(K) Credit Counseling/Payment Plan

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Mortgage, provided the Mortgagee documents that:

- one year of the payout period has elapsed under the plan;
- the Borrower's payment performance has been satisfactory and all required payments have been made on time; and
- the Borrower has received written permission from the counseling agency to enter into the mortgage transaction.

iv. Evaluating Liabilities and Debts (Manual)

(A) General Liabilities and Debts (Manual)

(1) Standard

The Mortgagee must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application (URLA)*, and required documentation.

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

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

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

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

(2) Required Documentation

The Mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.

(B) Undisclosed Debt and Inquiries (Manual)

(1) Standard

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the Mortgagee must:

- verify the actual monthly payment amount;
- include the payment amount in the agreement in the Borrower's monthly liabilities and debt; and
- determine that any unsecured funds borrowed were not/will not be used for the Borrower's MRI.

The Mortgagee must obtain a written explanation from the Borrower for all inquiries shown on the credit report that were made in the last 90 Days.

(2) Required Documentation

The Mortgagee must document all undisclosed debt and support for its analysis of the Borrower's debt.

(C) Federal Debt (Manual)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

(D) Alimony, Child Support, and Maintenance (Manual)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

The Mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

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

(4) Calculation of Monthly Obligation

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

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

(E) Non-Borrowing Spouse Debt in Community Property States (Manual)

(1) Definition

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

(2) Standard

If the Borrower resides in a community property state or the Property being insured is located in a community property state, debts of the non-borrowing

spouse must be included in the Borrower's qualifying ratios, except for obligations specifically excluded by state law.

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

(3) Required Documentation

The Mortgagee must verify and document the debt of the non-borrowing spouse, except for obligations specifically excluded by state law.

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

If the Borrower resides in a community property state or the Property being insured is located in a community property state, and non-borrowing spouse obligations are not excluded by state law, the Mortgagee must obtain a credit report for the non-borrowing spouse to determine the debt-to-income ratio of the Borrower. The credit report for the non-borrowing spouse may be traditional or nontraditional.

(F) Deferred Obligations (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must verify and include deferred obligations in the calculation of the Borrower's liabilities.

(3) Required Documentation

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

(4) Calculation of Monthly Obligation

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

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

(G) Student Loans (Manual)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment amount from the monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(4) Calculation of Monthly Obligation [Text was deleted in this section.]

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

(H) Installment Loans (Manual)

(1) Definition

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

(2) Standard

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

If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement.

(3) Required Documentation

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

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must use the loan agreement or payment statement to document the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations (Manual) section.

(I) Revolving Charge Accounts (Manual)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

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

(J) 30-Day Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

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

(K) Business Debt in Borrower's Name (Manual)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

(L) Disputed Derogatory Credit Accounts (Manual)

(1) Definition

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

(2) Standard

If the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgagee must include a monthly payment in the Borrower's debt calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance.

(M) Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report (Manual)

(1) Definition

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

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

(2) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

(N) Contingent Liabilities (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Mortgagee verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments. When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.

(3) Required Documentation

(a) Mortgage Assumptions

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

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months.

(c) Court-Ordered Divorce Decree or Other Court Order

The Mortgagee must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(4) Calculation of Monthly Obligation

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

(O) Collection Accounts (Manual)

(1) Definition

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

(2) Standard

If the credit reports used in the analysis show cumulative outstanding collection account balances of $2,000 or greater, the Mortgagee must:

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

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

(3) Required Documentation

The Mortgagee must provide the following documentation:

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

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

(P) Charge Off Accounts (Manual)

(1) Definition

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

(2) Standard

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

(Q) Private Savings Clubs (Manual)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

(R) Obligations Not Considered Debt

Obligations not considered debt include:

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

b. Income Requirements (Manual) (11/10/2026)

Definitions

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

Tax Return refers to a U.S. federal income tax return or, for Borrowers who reside in Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa and who are not required to file U.S. federal income taxes, the Mortgagee must obtain the equivalent tax filing for the territory (a territory tax return).

Standard

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

i. General Income Requirements (Manual)

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

The Mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's Tax Returns.

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

If FHA requires Tax Returns as required documentation for any type of Effective Income, the Mortgagee must also analyze the Tax Returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

If the income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document.

ii. Employment Related Income (Manual)

(A) Definitions

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2, *Wage and Tax Statement*.

Written Verification of Employment (WVOE) refers to a document-based employment verification obtained through a process involving human intervention, completed by the Mortgagee or a TPV vendor, based on information provided by the Borrower's employer through written communication.

Electronic Verification of Employment (EVOE) refers to a system-generated employment verification obtained through an automated process without human intervention, directly from the employer's payroll system, and obtained from a TPV vendor.

Reverification of Employment refers to a confirmation of a Borrower's current employment status obtained by the Mortgagee or a TPV vendor through independently verified direct contact with the Borrower's employer, which may be conducted verbally or through other communication methods.

(B) Standard

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

(C) Required Documentation

For all Employment related Income, the Mortgagee must verify the Borrower's most recent two years of employment and income, and document current employment using either the traditional or alternative method, and past employment as applicable.

(1) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment and income:

- the most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or biweekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings, and a WVOE covering two years; or
- an EVOE covering two years, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents.

Reverification of Employment must be completed within 10 Days prior to the date of the Note. Electronic reverification employment data must be current within 30 days of the date of the verification.

(2) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

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

Reverification of Employment must be completed within 10 Days prior to the date of the Note. Electronic reverification employment data must be current within 30 days of the date of the verification.

(3) Past Employment Documentation

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

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime, Bonus, or Tip Income).
- The Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

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

- IRS Form W-2(s);
- WVOE(s);
- EVOE(s), subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and/or
- evidence supporting enrollment in school or the military during the most recent two full years.

iii. Primary Employment (Manual) [Text was deleted in this section.]

(A) Definitions

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

(B) Standard

The Mortgagee may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

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

(2) Hourly

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

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

iv. Part-Time Employment (Manual) [Text was deleted in this section.]

(A) Definition

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

(B) Standard

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

(C) Calculation of Effective Income

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

v. Overtime, Bonus, or Tip Income (Manual)

(A) Definition

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

(B) Standard

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

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

(C) Calculation of Effective Income [Text was deleted in this section.]

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate Effective Income by using the lesser of:

- the average Overtime, Bonus, or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus, or Tip Income has been earned; or
- the average Overtime, Bonus, or Tip Income earned over the previous year.

vi. Seasonal Employment (Manual)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

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

(D) Calculation of Effective Income

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

vii. Employer Housing Subsidy (Manual)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

The Mortgagee must verify and document the existence and the amount of the housing subsidy.

(D) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, the Mortgagee may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

viii. Employed by Family-Owned Business (Manual)

(A) Definition

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

(B) Standard

The Mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(C) Required Documentation

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

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

In addition to traditional or alternative documentation requirements, the Mortgagee must obtain copies of signed personal Tax Returns or tax transcripts.

(D) Calculation of Effective Income [Text was deleted in this section.]

(1) Salary

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

(2) Hourly

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

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

ix. Commission Income (Manual)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.

(D) Calculation of Effective Income [Text was deleted in this section.]

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- the average Commission Income earned over either:
  - the previous two years; or
  - the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous year.

x. Self-Employment Income (Manual) [Text was deleted in this section.]

(A) Definition

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

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

- sole proprietorships;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

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

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(2) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must document that the business income is now stable.

A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

(C) Required Documentation

(1) Individual and Business Tax Returns

The Mortgagee must obtain complete individual Tax Returns for the most recent two years, including all schedules.

In lieu of signed individual or business Tax Returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, IRS Form 4506-C, or IRS Form 8821, and tax transcripts directly from the IRS.

(2) Profit & Loss Statements and Balance Sheets

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

If income used to qualify the Borrower exceeds the two-year average of Tax Returns, an audited P&L or signed quarterly Tax Return obtained from the IRS is required.

(3) Business Credit Reports

The Mortgagee must obtain a business credit report for all corporations and "S" corporations.

(D) Calculation of Effective Income

The Mortgagee must analyze the Borrower's Tax Returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Appendix 2.0 – Analyzing IRS Forms.

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

- the average gross Self- Employment Income earned over either:
  - the previous two years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or
- the average gross Self-Employment Income earned over the previous one year.

xi. Additional Required Analysis of Stability of Employment Income (Manual) [Text was deleted in this section.]

(A) Frequent Changes in Employment

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or

- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

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

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

(C) Addressing Temporary Reduction in Income

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

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

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

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

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

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;

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

xii. Other Sources of Effective Income (Manual)

(A) Disability Benefits (Manual)

(1) Definition

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

(2) Required Documentation

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

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

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

(a) Social Security Disability (Manual)

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

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

(b) Department of Veterans Affairs Disability

For VA disability benefits, the Mortgagee must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

(c) Private Disability

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

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(3) Calculation of Effective Income

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

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

(1) Definition

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

(2) Required Documentation

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

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

The Mortgagee must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or Tax Returns.

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

(3) Calculation of Effective Income

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

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

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

(C) Military Income (Manual)

(1) Definition

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

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

The Mortgagee may not use education benefits as Effective Income.

(2) Required Documentation

The Mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of

the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(3) Calculation of Effective Income

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

(D) Mortgage Credit Certificates (Manual)

(1) Definition

Mortgage Credit Certificates refer to government Mortgage Payment subsidies other than Section 8 Housing Choice Vouchers.

(2) Required Documentation

The Mortgagee must verify and document the amount of the tax rebate.

(3) Calculating Effective Income

Mortgage Credit Certificate income may be included as Effective Income. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(E) Section 8 Housing Choice Vouchers (Manual)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

The Mortgagee may only use Section 8 Housing Choice Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(F) Other Public Assistance (Manual)

(1) Definition

Public Assistance refers to income received from government assistance programs.

(2) Required Documentation

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

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

(3) Calculation of Effective Income

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

(G) Automobile Allowances (Manual)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

The Mortgagee must use the full amount of the Automobile Allowance to calculate Effective Income.

(H) Retirement Income (Manual)

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

(1) Social Security Income (Manual)

(a) Definition

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

(b) Required Documentation

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

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

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S.

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

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

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(c) Calculation of Effective Income

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

(2) Pension (Manual)

(a) Definition

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

(b) Required Documentation

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

The Mortgagee must obtain any one of the following documents:

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

(c) Calculation of Effective Income

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

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

(a) Definition

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

(b) Required Documentation

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

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

- Tax Returns; or
- the most recent bank statement evidencing receipt of income.

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k)

Income, the Mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

(I) Rental Income (Manual)

(1) Definition

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

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

(a) Standard

The Mortgagee may consider Rental Income from existing and prospective renters if documented in accordance with the following requirements.

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

No income from commercial space may be included in Rental Income calculations.

(b) Required Documentation

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

(i) Limited or No History of Rental Income

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

Two- to Four-Units

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

One-Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, and a Fannie Mae Form

1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective lease.

One-Unit with an Accessible Dwelling Unit

The Mortgagee must verify and document the proposed Rental Income from the ADU by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report* (*URAR)*, and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective leases.

***(ii)* History of Rental Income**

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the Mortgagee must verify and document the existing Rental Income by obtaining the existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation), and the Borrower's most recent Tax Returns, including Schedule E, from the previous two years.

For Properties owned less than two years, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure, or other legal document.

(c) Calculation of Effective Income

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

***(i)* Limited or No History of Rental Income**

To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Mortgagee must use 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

One-Unit with an Accessory Dwelling Unit

The amount of the Rental Income from an ADU used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

(ii) History of Rental Income

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

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

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

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

(a) Standard

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

(b) Required Documentation

(i) Limited or No History of Rental Income

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

Two- to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72) and, if available, the prospective leases.

One-Unit or One-Unit with an Accessory Dwelling Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective lease.

(ii) History of Rental Income

The Mortgagee must obtain the Borrower's last two years' Tax Returns with Schedule E.

(c) Calculation of Effective Net Rental Income

(i) Limited or No History of Rental Income

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the PITI from 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

(ii) History of Net Rental Income

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

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

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

If the Property has been owned for less than two years, the Mortgagee must:

- annualize the Rental Income for the length of time the Property has been owned; and
- document the date of acquisition by providing the deed, Closing Disclosure, or other legal document.

(4) Boarders of the Subject Property (Manual)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit. A renter of an ADU is not a Boarder.

(b) Standard

The Mortgagee may consider Rental Income from existing Boarders if documented in accordance with the following requirements.

Rental Income from Boarders may be considered Effective Income if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving Boarder income.

Rental Income from Boarders is permitted whether the Borrower currently rents or owns the Dwelling Unit.

(c) Required Documentation

The Mortgagee must verify and document the existing Rental Income from Boarders by obtaining the following:

- evidence of rental history over the previous 12 months;
- evidence of Rental Income received from Boarders for at least nine of the most recent 12 months in the form of:
  - the Borrower's Tax Returns; or
  - bank statements, canceled checks, or deposit slips, showing rental payments received;
- evidence that the Boarder's address is the same as the Borrower's address; and
- a copy of the executed written agreement documenting the boarding terms and the Boarder's intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

The Mortgagee must calculate Rental Income from Boarders by using the lesser of:

- the 12-month average; or
- the current rent as documented in the written agreement.

Where Rental Income from Boarders has been documented for at least nine of the last 12 months, the Mortgagee must average the Rental Income over a 12-month period.

The amount of the Rental Income from Boarders used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

(J) Investment Income (Manual)

(1) Definition

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

(2) Required Documentation

The Mortgagee must verify and document the Borrower's Investment Income by obtaining Tax Returns for the previous two years and the most recent account statement.

(3) Calculation of Effective Income

The Mortgagee must calculate Investment Income by using the lesser of:

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

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

(K) Capital Gains and Losses (Manual)

(1) Definition

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

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

(2) Standard

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

(3) Required Documentation

Three years' Tax Returns are required to evaluate an earnings trend. If the trend:

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

(L) Expected Income (Manual)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

The Mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the Mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

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

(M) Trust Income (Manual)

(1) Definition

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

(2) Required Documentation

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

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

(3) Calculation of Effective Income

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

(N) Annuities or Similar (Manual)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

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

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

(O) Notes Receivable Income (Manual)

(1) Definition

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

(2) Required Documentation

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

(3) Calculation of Effective Income

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

(P) Nontaxable Income (Grossing Up) (Manual)

(1) Definition

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

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- Section 8 Housing Choice Vouchers;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

The Mortgagee must document and support the amount of income to be Grossed Up for any Nontaxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(3) Calculation of Effective Income

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

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

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

(Q) Foster Care Payment

(1) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(2) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(4) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:

- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

(R) Foreign Income

(1) Definition

Foreign Income refers to income received by a Borrower from sources located outside of the United States by a foreign corporation or a foreign government and is paid in foreign currency.

(2) Standard

The Mortgagee may use Foreign Income as Effective Income if the Borrower has received this income for the previous two years and it is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain complete individual Tax Returns showing Foreign Income for the most recent two years, including all schedules.

For all Foreign Income, the Mortgagee must satisfy the requirements listed based on source and type of income as outlined in Income Requirements (Manual).

If the Foreign Income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document and convert foreign currency to U.S. dollars.

(4) Calculation of Effective Income

The Mortgagee must analyze the Borrower's Tax Returns to determine gross Foreign Income. The Mortgagee must average the Foreign Income over the previous two years to calculate of Effective Income.

c. Asset Requirements (Manual) (11/10/2026)

i. General Asset Requirements (Manual)

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

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

(A) Earnest Money Deposit (Manual)

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

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with Gifts (Personal and Equity) (Manual).

(B) Cash to Close (Manual)

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

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

(1) Determining the Amount Needed for Closing

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

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

(2) Mortgagee Responsibility for Estimating Settlement Requirements

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

(a) Origination Fees and Other Closing Costs

The Mortgagee or sponsored TPO may charge a reasonable origination fee.

The Mortgagee or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs and prepaid items necessary to close the Mortgage. Charges may not exceed the actual costs.

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

(b) Discount Points

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

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

Prepaid items may include flood and hazard insurance premiums, MIP, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB.

(d) Non-realty or Personal Property

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

(e) Upfront Mortgage Insurance Premium Amounts

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than $1.

(f) Real Estate Agent Fees

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

(g) Repairs and Improvements

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

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.

The funds derived from a premium priced Mortgage:

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

(i) Interested Party Contributions on the Closing Disclosure

The Mortgagee may apply Interested Party credits toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points.

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

The Mortgagee must identify the total Interested Party credits on the front page of the Closing Disclosure or similar legal document or in an addendum. The Mortgagee must identify each item paid by Interested Party Contributions.

(j) Real Estate Tax Credits

Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting, without consideration of the real estate tax credit.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

(C) Reserves (Manual)

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

Reserves do not include:

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

(1) Required Reserves for One- to Two-Unit Properties

The Mortgagee must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.

(2) Required Reserves for Three- to Four-Unit Properties

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

(3) Required Reserves for One-Unit with an Accessory Dwelling Unit Properties

If Rental Income is being used to qualify, the Mortgagee must verify and document Reserves equivalent to two months' PITI after closing for one-unit with an ADU Properties.

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

(A) Definition

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

(B) Standard

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

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

While additional funds to close may be provided by one of these sources if permitted under the relevant requirements above, none of the Borrower's MRI may come from these sources. The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.

Additionally, in accordance with Prohibited Sources of Minimum Cash Investment Under the National Housing Act - Interpretive Rule, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the Borrower's MRI where the Governmental Entity is originating the insured Mortgage through one of its homeownership programs.

(C) Required Documentation

Where the Borrower's MRI is provided by someone other than the Borrower, the Mortgagee must also obtain documentation to support the permissible nature of the source of those funds.

To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the Mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the Mortgagee for the use of funds legally belonging to the Mortgagee to fund the Borrower's MRI.

The Mortgagee must obtain:

- a canceled check, evidence of wire transfer, or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided toward the Borrower's MRI from the Governmental Entity's account; or
- a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided toward the Borrower's MRI were funds legally belonging to the Governmental Entity, when acting in their governmental capacity, at or before closing.

Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI legally belonged to the Governmental Entity at or before closing, by stating, for example:

- the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds toward the Borrower's MRI;
- the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds toward the Borrower's MRI; or
- the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds toward the Borrower's MRI.

While the Mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.

iii. Sources of Funds (Manual)

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

(A) Checking and Savings Accounts (Manual)

(1) Definition

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

(2) Standard

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

For individual deposits of more than 50 percent of the total monthly Effective Income, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that the deposits are commensurate with the

Borrower's income and savings history and no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

(a) Traditional Documentation

The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month activity for a minimum of one month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

(b) Alternative Documentation

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

(B) Cash on Hand (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

(3) Required Documentation

The Mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;

- spending habits;
- documented expenses; and
- history of using financial institutions.

(C) Retirement Accounts (Manual)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

(D) Stocks and Bonds (Manual)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

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

If the stocks and bonds are not held in a brokerage account, the Mortgagee must determine the current value of the stocks and bonds through TPV. Government-issued savings bonds are valued at the original purchase price, unless the

Mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

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

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

(E) Private Savings Clubs (Manual)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

(F) Gifts (Personal and Equity) (Manual)

(1) Definition

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

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;

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

Any Gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual).

(b) Reserves

Surplus gift funds may not be considered as cash Reserves.

(c) Donor's Source of Funds

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

(3) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Mortgagee must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below.

- For Gifts that will be verified prior to settlement, the Mortgagee must obtain one of the following:
  - the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account;
  - a copy of the donor's canceled check and evidence of deposit into the Borrower's account;
  - a copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
  - evidence of the electronic transfer of funds from the donor's account to the Borrower's account.
- For Gifts that will be verified at settlement, the Mortgagee must obtain one of the following evidencing payment to the settlement agent:
  - evidence of electronic transfer of funds from the donor's account;

- bank certified check;
- cashier's check; or
- other official bank check.

- For Gifts of land, the Mortgagee must obtain:
  - proof of ownership by the donor; and
  - evidence of the transfer of title to the Borrower.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.

(b) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

(G) Interested Party Contributions (Manual)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third-Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs, prepaid items, and Discount Points. The 6 percent limit also includes:

- Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;

- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, prepaid items, and Discount Points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit provided the Mortgagee or TPO is not the seller, real estate agent, builder or developer.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(3) Required Documentation

The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

(H) Inducements to Purchase (Manual)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the purchase price;
- contributions exceeding the origination fees, other closing costs, prepaid items, and Discount Points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;

- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (Manual)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by FHA

(2) Sales Commission (Manual)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (Manual)

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent pro-rated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the

Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Downpayment Assistance Programs (Manual)

FHA does not "approve" downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does not allow nonprofit entities to provide Gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

The Mortgagee must ensure that a Gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a Gift that is to be used for all, or part, of a Borrower's downpayment, and the organization providing the Gift loses or gives up its federal tax-exempt status, FHA will recognize the Gift as an acceptable source of the downpayment provided that:

- the Gift is made to the Borrower;
- the Gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization

The Mortgagee is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the IRS Tax Exempt Organization Search, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (Manual)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a Gift or a grant even if it does not require regular payments or has other features forgiving the debt.

(1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual)

(a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 entities to be Instrumentalities of Government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the insured first Mortgage does not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual);
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution. This provision does not apply to the

Federal Home Loan Bank (FHLB) Homeownership Set-Aside Program.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The Mortgagee must enter information on HUD-approved Nonprofits into FHAC, as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual).

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the Mortgage and Note; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information:
  - the FHA case number for the first Mortgage;
  - the complete property address;
  - the name, address and Taxpayer Identification Number (TIN) for the nonprofit;
  - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
  - the amount and purpose for the secondary financing provided to the Borrower; and

- a statement indicating whether the secondary financing:
  - will close in the name of the Governmental Entity; or
  - will be closed in the name of the nonprofit and held by the Governmental Entity.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Where a nonprofit meets the criteria identified in Section 115 of the IRC for exclusion of taxation, the nonprofit must provide one of the following:

- a letter from the organization's auditor;
- a written statement from the organization's General Counsel, as an official of the organization;
- a determination or ruling letter issued by the IRS; or
- an equivalent document evidencing Section 115 status.

(2) Secondary Financing Provided by HUD-Approved Nonprofits (Manual)

(a) Definition

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD-approved Nonprofits appear on the HUD Nonprofit Roster.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;

- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual).

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

The Mortgagee must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

(3) Family Members (Manual)

(a) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;

- if the Family Member providing the secondary financing borrows the funds, the lending source may not be an entity with an Identity of Interest in the sale of the Property, such as the:
  - seller;
  - builder;
  - loan originator; or
  - real estate agent;
- mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(b) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the Mortgage and Note.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the Mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Mortgagee.

(4) Private Individuals and Other Organizations (Manual)

(a) Definition

Private Individuals and Other Organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this Secondary Financing section.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the Nationwide Mortgage Limits.
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the Mortgagee 30 Days advance notice.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

(K) Loans (Manual)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (Manual)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual).

(d) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (Manual)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

The Mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

The Mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (Manual)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA-insured Mortgage, and meet the requirements for Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual).

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

The Mortgagee must verify and document the promissory Note.

(L) Grants (Manual)

(1) Disaster Relief Grants (Manual)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's Minimum Required Investment (Manual).

(2) Federal Home Loan Bank Homeownership Set-Aside Program (Manual)

(a) Standard

The Federal Home Loan Banks' (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Program is an acceptable source of downpayment assistance and may be provided as either a grant or secondary financing. If the AHP Set-Aside funds create a lien against the Property, all requirements in Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual) must be followed.

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements in Source Requirements for the Borrower's Minimum Required Investment (Manual).

(b) Required Documentation

The Mortgagee must document the Borrower's receipt of the AHP Set-Aside Funds.

Regardless of whether the funds are provided as a grant or secondary financing, the Mortgagee must document that the Retention Agreement required by the FHLB is recorded against the Property. The Retention Agreement must result in a Deed Restriction when funds are provided as a grant. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (Manual)

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, prepaid items, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, the Mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The Mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

The Mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (Manual)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles.

(2) Standard

The Mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain cash for closing.

The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(O) Trade-In of Manufactured Home (Manual)

(1) Definition

Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

The Mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The Mortgagee must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (Manual)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Closing Disclosure or similar legal document.

The Mortgagee must also verify and document that it is an Arm's Length Transaction, and that the Borrower is entitled to the Net Sale Proceeds.

(Q) Real Estate Commission from Sale of a Subject Property (Manual)

(1) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

(2) Standard

Mortgagees may consider Real Estate Commissions from Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

(3) Required Documentation

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a real estate commission from the sale of the Property being purchased.

(R) Sweat Equity (Manual)

(1) Definition

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the Property being purchased.

(2) Standard

The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the Source Requirements for the Borrower's Minimum Required Investment (Manual).

The Mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The Mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity.

Cash back to the Borrower is not permitted in Sweat Equity transactions.

(3) Required Documentation

For materials furnished, the Mortgagee must obtain evidence of the source of funds and the Market Value of the materials.

For labor, the Mortgagee must verify and document that the work will be completed in a satisfactory manner. The Mortgagee must also obtain evidence of Contributory Value of the labor either through an Appraiser's estimate, or a cost-estimating service.

- For labor on Existing Construction, the Mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible)
- For labor on New Construction, the Mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction.

(S) Trade Equity (Manual)

(1) Definition

Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash investment.

(2) Standard

The amount of the Borrower's equity contribution is determined by:

- using the lesser of the Property's appraised value or sales price; and
- subtracting all liens against the Property being traded, along with any real estate commission.

If the Property being traded has an FHA-insured Mortgage, assumption processing requirements and restrictions apply.

(3) Required Documentation

The Mortgagee must obtain a residential appraisal report complying with FHA appraisal policy to determine the Property's value. The Mortgagee must also obtain the Closing Disclosure or similar legal document to document the sale of the Property.

(T) Rent Credits (Manual)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

The Mortgagee may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent toward the MRI.

(3) Required Documentation

The Mortgagee must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

d. Final Underwriting Decision (Manual) (11/10/2026)

The Direct Endorsement (DE) underwriter is ultimately responsible for making an underwriting decision on behalf of their Direct Endorsement Mortgagee in compliance with HUD requirements.

i. Duty of Care/Due Diligence (Manual)

The underwriter must exercise the same level of care that would be used in underwriting a Mortgage entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured Mortgage.

ii. Specific Underwriter Responsibilities (Manual)

The underwriter must review each Mortgage as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Mortgage Payments to make an underwriting decision on behalf of their Direct Endorsement Mortgagee in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the mortgage obligation according to the terms of the Mortgage.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Mortgage, and the overall acceptability of the Mortgage for FHA insurance;
- identify any inconsistencies in information obtained by the Mortgagee in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Mortgage; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

iii. Underwriting of Credit and Debt (Manual)

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report. See Credit Requirements (Manual).

The lack of traditional credit history or the Borrower's decision to not use credit may not be used as the sole basis for denying the mortgage application.

Compensating factors cannot be used to compensate for any derogatory credit.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the mortgage transaction or the purchase of the Property.

iv. Underwriting of Income (Manual)

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation. See Income Requirements (Manual).

v. Underwriting of Assets (Manual)

The underwriter must review the assets of a Borrower and verify that they have been supported with the proper documentation. See Asset Requirements (Manual).

vi. Verifying Mortgage Insurance Premium and Mortgage Amount (Manual)

The underwriter must review the MIP and mortgage amount and verify that they have been supported with the proper documentation. See underwriting.

vii. Calculating Qualifying Ratios (Manual)

(A) General Information about Qualifying Ratios

For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Mortgage Payment to Effective Income Ratio (PTI) and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the Approvable Ratio Requirements (Manual) chart.

The Mortgagee must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.

(B) Calculating Total Mortgage Payment

The total Mortgage Payment includes:

- P&I;
- real estate taxes;
- Hazard Insurance;
- Flood Insurance as applicable;
- MIP;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

The Mortgagee may deduct the amount of the Section 8 Housing Choice Voucher if it is paid directly to the Servicer.

(1) Estimating Real Estate Taxes

The Mortgagee must use accurate estimates of monthly tax escrows when calculating the total Mortgage Payment.

In New Construction cases and Manufactured Homes converting to real estate, property tax estimates must be based on the land and improvements.

Where real estate taxes are abated, Mortgagees may use the abated amount provided that (1) the Mortgagee can document the abated amount with the taxing authority and (2) the abatement will remain in place for at least the first three years of the Mortgage.

(2) Condominium Utility Expenses

The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the HOA fees before computing qualifying ratios, provided the Borrower provides proper documentation, such as statements from the utility company.

(3) Temporary Interest Rate Buydowns

The Mortgagee must use the Note rate when calculating principal and interest for Mortgages that involve a temporary interest rate buydown.

(C) Calculating Total Fixed Payment

The total fixed payment includes:

- the total Mortgage Payment; and
- monthly obligations on all debts and liabilities.

viii. Approvable Ratio Requirements (Manual)

The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or No Credit Score	31/43	Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	31/43	No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	37/47	**One** of the following: • verified and documented cash Reserves; • minimal increase in housing payment; or • residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	**Two** of the following: • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

ix. Documenting Acceptable Compensating Factors (Manual)

The following describes the compensating factors and required documentation that may be used to justify approval of manually underwritten Mortgages with qualifying ratios as described above.

(A) Energy Efficient Homes

(1) Standard

For Mortgages on New Construction, the Borrower is eligible for the EEH stretch ratios when the Property meets or exceeds the higher of:

- the latest energy code standard that has been adopted by HUD through a Federal Register notice;
- the applicable International Energy Conservation Code (IECC) year used by the state or local building code; or
- a Manufactured Home that is certified as ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home.

For Mortgages on Existing Construction, the Borrower is eligible for the EEH stretch ratios when the property meets either of the following conditions:

- homes that *currently* score a **"6" or higher** on the Home Energy Score scale;
- homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home's score to a **"6" or higher** are completed prior to closing, or in association with FHA's 203(k), Weatherization, EEM or Solar and Wind programs; or
- a Manufactured Home that is certified as ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home.

(2) Required Documentation

The following documents must be included in the case binder submitted for endorsement:

- For Mortgages on Existing Construction, a copy of the Home Energy Score Report, or a photo of the ENERGY STAR label on a Manufactured Home.
- For Mortgages on New Construction, a copy of form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, to evidence the IECC code, successor code, or local/state building code used; or the manufacturer's invoice of the Manufactured Home indicating that the unit is ENERGY STAR qualified.

(B) Verified and Documented Cash Reserves

Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or
- Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

Reserves are calculated as the Borrower's total assets as described in Asset Requirements (Manual) less:

- the total funds required to close the Mortgage;
- Gifts;
- borrowed funds; and
- cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

(C) Minimal Increase in Housing Payment

A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than $100 or 5 percent, whichever is less; and
- there is a documented 12 month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the Mortgage being refinanced must have been made within the month due for the previous 12 months.
- If the Borrower has no current housing payment Mortgagees may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

(D) No Discretionary Debt

No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

(E) Significant Additional Income Not Reflected in Effective Income

Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

- the Mortgagee must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

(F) Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) *Lenders Handbook* - VA Pamphlet 26-7, Chapter 4.9 b and e.

(1) Calculating Residual Income

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- total fixed payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Nontaxable Income.

If available, Mortgagees must use Tax Returns and where applicable, state tax returns, from the most recent tax year to document state and local taxes, retirement, Social Security, and Medicare. If tax returns are not available, Mortgagees may rely upon current pay stubs.

For estimated maintenance and utilities, Mortgagees must multiply the Gross Living Area of the Property by the maintenance and utility factor found in the *Lenders Handbook* - VA Pamphlet 26-7.

(2) Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, the Mortgagee must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."

Exception

The Mortgagee may omit any individuals from "family size" who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table provided in *Lenders Handbook* - VA Pamphlet 26-7, select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

x. Borrower Approval or Denial (Manual) [Text was deleted in this section.]

(A) Re-underwriting

The Mortgagee must re-underwrite a Mortgage when any data element of the Mortgage changes and/or new Borrower information becomes available.

(B) Documentation of Final Underwriting Review Decision

The underwriter must complete the following documents to evidence their final underwriting decision.

For cases involving Mortgagees that receive a Direct Endorsement Program Test Case Phase approval letter from FHA, the Mortgagee completes the following and then submits the complete underwritten mortgage application post-closing to FHA for review and issuance of a *Firm Commitment* or Rejection Notice.

(1) Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*

The underwriter must record the following items on form HUD-92900-LT:

- their decision;
- any compensating factors;
- any modification of the mortgage amount and approval conditions under "Underwriter Comments"; and
- their Direct Endorsement Identification Number and signature.

(2) Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*

The underwriter must confirm that form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* is completed as directed in the form instructions.

(3) Form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*

The underwriter must complete form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*, as directed in the form instructions.

An authorized officer of the Mortgagee, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

(C) Conditional Approval

The underwriter must condition the approval of the Borrower on the completion of the final *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-A at or before closing if the underwriter relied on an initial *URLA* and form HUD-92900-A in underwriting the Mortgage.

(D) Notification of Borrower of Approval and Term of the Approval

The Mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the *Firm Commitment* is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

(E) Responsibilities upon Denial

When a Mortgage is denied, the Mortgagee must comply with all requirements of the FCRA, and the Equal Credit Opportunity Act (ECOA), as implemented by Regulation B (12 CFR Part 1002).

xi. RESERVED FOR FUTURE USE

RESERVED FOR FUTURE USE

Previous content from this section is deleted and this section is reserved for future use.

xii. Underwriting Nonprofit Borrowers (Manual)

(A) General Eligibility

Nonprofit agencies must be HUD-approved as a Borrower prior to case number assignment. FHA approves or denies the nonprofit agency's participation in FHA activities. The approval is valid for a two-year period.

(B) Borrower Eligibility

The Mortgagee must review the Nonprofit List in FHAC, and ensure the maximum case load limitation is not exceeded for nonprofit Borrowers.

The Mortgagee must ensure that Additional Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies are met.

The Mortgagee must verify that the nonprofit organization remains eligible under Section 501(c)(3) as exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended.

(1) Employer Identification Number

The Mortgagee must obtain the Employer Identification Number (EIN) of the nonprofit Borrower and enter it into the SSN field in FHAC.

(2) Credit Alert and Limited Denial of Participation Screening

The Mortgagee must screen nonprofit Borrowers through the Credit Alert Verification Reporting System (CAIVRS) and the Limited Denial of Participation List using the nonprofit Borrower's EIN.

(C) Program and Product Limitations

Nonprofit Borrowers are eligible only for fixed rate Mortgages.

Nonprofit Borrowers are eligible only for FHA-to-FHA refinances. Nonprofit Borrowers are not eligible for cash-out refinances.

(D) Maximum Loan-to-Value Limits

Mortgages for nonprofit Borrowers are subject to the same LTV limitations as Mortgages secured by a Principal Residence.

(E) Underwriting

The Mortgagee must underwrite nonprofit Borrowers in accordance with the guidance provided in this section. The Underwriting the Borrower Using the

TOTAL Mortgage Scorecard and Manual Underwriting of the Borrower sections are not applicable to nonprofit Borrowers.

The Mortgagee must obtain documentation to determine the nonprofit Borrower's actual financial capacity and demonstrate that it has stability and proper cash management.

(1) Standard

(a) Funding Stream Analysis

The Mortgagee must consider the reliability and duration of the funding stream, and whether the primary sources of funding are competitive, whether the nonprofit Borrower's funding stream is from a mix of private and public sources, or only from public funds, and if other sources of funding are available should one or more be curtailed.

The Mortgagee must also consider whether those funding sources permit overhead and administrative allowances as well as the amount of the nonprofit Borrower's assets that will be encumbered by the downpayments on the Mortgages.

(b) Financial Capacity Analysis

The Mortgagee must analyze the year-to-date and previous two years' financial statements, balance sheets, statements of activity and statements of cash flow to determine the financial stability and capacity of the nonprofit Borrower, including all mortgage applications in process.

(i) Unrestricted Cash Balance

The Mortgagee must determine if the nonprofit Borrower has an unrestricted cash balance exclusive of lines of credit and Rental Income from the financed Properties that is stable or increasing and supports a six month reserve meeting the greater of:

- 10 percent of the total Mortgage Payments due each month on all Mortgages; or
- total Mortgage Payments for the single largest Mortgage.

(ii) Liquidity Ratio

The Mortgagee must determine if the nonprofit Borrower has a liquidity ratio (current assets divided by current liabilities) of 2.00 or greater. Lines of credit are not to be considered in this ratio.

(iii) Total Net Assets (Equity)

The Mortgagee must determine that the total net assets are:

- stable or increasing; and
- equal to or greater than 25 percent of the proposed mortgage debt.

(iv) Unrestricted Net Assets

The Mortgagee must determine that the unrestricted net assets are stable or increasing.

(v) Total Assets and Liabilities

The Mortgagee must determine that:

- the total assets are stable or increasing; and
- the trend of liabilities is stable or increasing at the same rate as the total assets.

(vi) Support and Revenue Accounts

Definition

Support and Revenue Accounts refer to operating income and other non-debt income sources.

Standard

The Mortgagee must determine that:

- the support and revenue accounts are stable or increasing; and
- the trend of operating expenses is stable or increasing at the same rate as the support and revenue accounts.

(vii) Cash Flow

The Mortgagee must determine that the trend of cash flow from operating activities is positive.

(viii) Working Capital

Definition

Working Capital refers to the liquid assets less short-term liabilities.

Standard

The Mortgagee must determine that the trend of working capital is stable or increasing.

(2) Required Documentation

The Mortgagee must obtain:

- the two most recent years':
  - audited financial statements (balance sheet, statement of activity, statement of cash flow); and
  - IRS Form 990, *Return of Organization Exempt from Income Tax*;
- most recent audited 90-Day year-to-date financial statement;
- credit reports on the nonprofit agency; and
- corporate resolution delegating signatory authority.

(F) Final Underwriting Decision for Nonprofit Borrowers

The Mortgagee must analyze the nonprofit Borrower's financial capacity for each Mortgage being considered in accordance with the standards above.

If the nonprofit Borrower does not meet all of the standards above, the Mortgagee must document acceptable compensating factors.

The Mortgagee must describe how it arrived at the conclusion that the nonprofit Borrower was an acceptable mortgage risk and met FHA's eligibility criteria. The analysis must consider the effect of the proposed mortgage debt(s) on the nonprofit agency's financial condition.

6. Closing

a. Mortgagee Closing Requirements (01/24/2022)

i. Chain of Title

The Mortgagee must obtain evidence of prior ownership when a Property was sold within 12 months of the case number assignment date. The Mortgagee must review the evidence of prior ownership to determine any undisclosed Identity-of-Interest transactions.

ii. Title

The Mortgagee must ensure that all objections to title have been cleared and any discrepancies have been resolved to ensure that the FHA-insured Mortgage is in first lien position.

(A) Good and Marketable Title

(1) Standard

The Mortgagee must determine if there are any exceptions to good and marketable title not covered by the General Waiver. See General Mortgage Insurance Eligibility and 24 CFR § 203.389.

The Mortgagee must review any exceptions discovered during the title search and decide whether such title exceptions affect the Property's value and/or marketability.

If the Mortgagee determines that any exception affects the Property's value and/or marketability, the Mortgagee must request a waiver.

(2) Required Documentation

The Mortgagee must obtain Title Evidence demonstrating good and marketable title.

(B) Requests for Title Exceptions Not Covered by the General Waiver

The Mortgagee must submit a request for a waiver to FHA prior to endorsement when the Title Exception is not covered by the General Waiver. The request must include the case number, the specific guideline and the reason the Mortgagee is asking for the waiver. All requests must be submitted to the FHA Resource Center at answers@hud.gov and include the following subject line: Title Exception Not Covered by General Waiver. If FHA grants the requested waiver, the Mortgagee will receive a notification in writing. The Mortgagee must place the notice of approval in the mortgage file.

If the waiver request is denied and good and marketable title is not obtained, the Mortgage is not eligible for FHA insurance.

(C) Manufactured Housing

Good and marketable title showing the Manufactured Home and land are classified as real estate at the time of closing is required.

If there were two existing titles at the time the housing unit was purchased, the Mortgagee must ensure that all state or local requirements for proper purging of the title (chattel or equivalent debt instrument) have been met, and the subject Property is classified as real estate prior to endorsement. The Manufactured Home need not be taxed as Real Property.

iii. Legal Restrictions on Conveyance (Free Assumability)

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

iv. Closing in Compliance with Mortgage Approval

The Mortgagee must instruct the settlement agent to close the Mortgage in the same manner in which it was underwritten and approved.

The Mortgagee must ensure that the conditions listed on form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*, and/or form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* are satisfied.

v. Closing in the Mortgagee's Name

A Mortgage may close in the name of the Mortgagee or the sponsoring Mortgagee, the principal or the authorized agent. TPOs that are not FHA-approved Mortgagees may not close in their own names or perform any functions in FHA Connection (FHAC).

vi. Required Forms

The Mortgagee must use the forms and/or language prescribed by FHA in the legal documents used for closing the Mortgage.

vii. Certifications

(A) Borrower Certification

The Borrower must sign the certification on form HUD-92900-A for all transactions and the Settlement Certification for purchase transactions in accordance with the instructions provided on the form.

(B) Seller Certification

The seller must sign the certification on the Settlement Certification for purchase transactions.

(C) Settlement Agent Certification

The settlement agent must sign the certification on the Settlement Certification for purchase transactions.

(D) Lender Certification

The Mortgagee must sign the certifications on the form HUD-92900-A in accordance with the instructions provided on the form.

viii. Projected Escrow

The Mortgagee must establish the escrow account in accordance with the regulatory requirements in 24 CFR § 203.550 and RESPA.

(A) Monthly Escrow Obligations

The Mortgagee must collect a monthly amount from the Borrower that will enable it to pay all escrow obligations in accordance with 24 CFR § 203.23. The escrow account must be sufficient to meet the following obligations when they become due:

- hazard insurance premiums;
- real estate taxes;
- Mortgage Insurance Premiums (MIP);
- special assessments;
- flood insurance premiums if applicable;
- Ground Rents if applicable;
- servicing, maintenance, repair and replacement of water purification equipment; and
- any item that would create liens on the Property positioned ahead of the FHA-insured Mortgage, other than condominium or Homeowners' Association (HOA) fees.

(B) Repair Completion Escrow Requirements

The Mortgagee may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing.

Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.

The Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the repair escrow has been established.

The Mortgagee must certify on form HUD-92051, *Compliance Inspection Report,* that the incomplete construction, alterations and repairs have been satisfactorily completed.

After the repair escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

ix. Temporary Interest Rate Buydown Escrow Requirements

The Mortgagee must establish an escrow for temporary interest rate buydowns.

The escrow agreement must not:

- permit reversion of undistributed escrow funds to the provider if the Property is sold or the Mortgage is prepaid in full; nor
- allow unexpended escrow funds to be provided to the Borrower in cash, unless the borrower funds were used to establish the escrow account.

Payments must be made by the escrow agent to the Mortgagee or servicing agent. If escrow payments are not received for any reason, the Borrower is responsible for making the total payment as described in the mortgage Note.

x. Closing Costs and Fees

The Mortgagee must ensure that all fees charged to the Borrower comply with all applicable federal, state, and local laws and disclosure requirements.

The Mortgagee is not permitted to use closing costs to help the Borrower meet the Minimum Required Investment (MRI).

(A) Collecting Customary and Reasonable Fees

The Mortgagee may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.

The Mortgagee must ensure that the aggregate charges do not violate FHA's Tiered Pricing rules.

(B) Other Fees and Charges

The Mortgagee or sponsored TPO may charge the Borrower Discount Points, and lock-in and rate lock fees consistent with FHA and CFPB requirements.

(1) Origination Fees

The Mortgagee may charge an origination fee in accordance with RESPA.

(2) Discount Points

The Mortgagee may charge the Borrower Discount Points.

(3) Lock-in and Rate Lock Fees

The Mortgagee may charge the Borrower lock-in and rate lock fees only if the Mortgagee provides a lock-in or commitment agreement guaranteeing the interest rate and/or Discount Points for a period of not less than 15 Days prior to the anticipated closing.

(C) Qualified Mortgage

The Mortgagee must ensure the points and fees charged are in compliance with FHA's Qualified Mortgage Rule.

(D) Tiered Pricing

The Mortgagee must ensure that the aggregate fees and charges do not violate the following Tiered Pricing rule.

(1) Definitions for Tiered Pricing

Area refers to a Metropolitan Statistical Area (MSA) as established by the Office of Management and Budget.

Mortgage Charge refers to the interest rate, Discount Points, origination fee, and any other amount charged to the Borrower for an insured Mortgage.

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a Mortgage expressed as a percentage of the initial principal of the Mortgage.

Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage points from the Mortgagee's reasonable and customary rate for insured Mortgages for dwellings located within the area.

(2) Required Documentation

The Mortgagee must document that any variation in the Mortgage Charge Rate is based on actual variations in fees or costs to the Mortgagee to make the Mortgage.

(3) Standard

The Mortgagee may not make a Mortgage with a Mortgage Charge Rate that varies more than two percentage points from the Mortgagee's reasonable and customary rate for insured Mortgages for dwellings located within the area.

To determine whether a Mortgage exceeds the two percentage point variation limit, the Mortgagee must compare Mortgage Charge Rates for Mortgages of the same type, from the same area, and made on the same day or during some other reasonably limited period.

See Section 203(u) of the National Housing Act (12 U.S.C. § 1709(u)), 24 CFR § 202.12.

xi. Disbursement Date

Disbursement Date refers to the date the proceeds of the Mortgage are made available to the Borrower.

The Disbursement Date must occur before the expiration of the FHA-issued *Firm Commitment* or Direct Endorsement approval and credit documents.

xii. Per Diem Interest and Interest Credits

The Mortgagee may collect per diem interest from the Disbursement Date to the date amortization begins.

Alternatively, the Mortgagee may begin amortization up to 7 Days prior to the Disbursement Date and provide a per diem interest credit. Any per diem interest credit may not be used to meet the Borrower's MRI.

Per diem interest must be computed using a factor of 1/365th of the annual rate.

xiii. Signatures

The Mortgagees must ensure that the Mortgage, Note, and all closing documents are signed by all required parties in accordance with the Borrower Eligibility.

The Mortgagee must ensure that the signatures block on the Mortgage follows the Fannie Mae/Freddie Mac format, with the following exceptions: witness signatures are only required if witnesses are required by state law, and the Borrower's Social Security Number (SSN) may be omitted.

(A) Use of Power of Attorney at Closing

A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including page 4 of the final form HUD-

92900-A and the final Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*).

Unless required by applicable state law, or as stated in the Exception below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- Mortgagee, or any employee or Affiliate;
- loan originator, or employer or employee;
- title insurance company providing the title insurance policy, the title agent closing the Mortgage, or any of their Affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

Exception

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA expressly authorizes the attorney-in-fact to execute the required documents on behalf of a Borrower, only if the Borrower, to the satisfaction of the attorney-in-fact in a recorded interactive session conducted via the internet has:

- confirmed their identity; and
- reaffirmed, after an opportunity to review the required mortgage documents, their agreement to the terms and conditions of the required mortgage documents evidencing such transaction and to the execution of such required Mortgage by such attorney-in-fact.

The Mortgagee must obtain copies of the signed initial *URLA* and initial form HUD 92900-A signed by the Borrower or POA in accordance with Signature Requirements for All Application Forms.

(B) Electronic Signatures

See Policy on Use of Electronic Signatures.

b. Mortgage and Note (04/10/2025)

i. Definitions

Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential Property and the land on which it is situated, such as a deed of trust or security deed or land contract.

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Mortgage.

ii. Standard

The Mortgagee must develop or obtain a separate Mortgage and Note that conforms generally to the Freddie Mac and Fannie Mae forms in both form and content, but that includes the specific modification required by FHA set forth in the applicable Model Note and Mortgage.

The Mortgagee must ensure that the Mortgage and Note comply with all applicable state and local requirements for creating a recordable and enforceable Mortgage, and an enforceable Note.

All occupying and non-occupying Borrowers and co-Borrowers must take title to the Property in their own name or a living trust at settlement, be obligated on the Note or credit instrument, and sign all security instruments. In community property states, the Borrower's spouse is not required to be a Borrower or a Co-signer. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

c. Disbursement of Mortgage Proceeds (01/24/2022)

i. Standard for Disbursement of Mortgage Proceeds

The Mortgagee must verify that Mortgage proceeds are disbursed in the proper amount to the Borrower and the seller, or in the case of a refinance transaction, to the debt holder. At closing, the Mortgage proceeds disbursed by the Mortgagee and the cash from the Borrower must equal the total Acquisition Cost or refinance cost.

ii. Required Documentation for Disbursement of Mortgage Proceeds

The Mortgagee must obtain the final acknowledged Closing Disclosure or similar legal document from the settlement agent signed by the Borrower. If the seller's Closing Disclosure or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final Closing Disclosure provided to the seller to keep in the case binder.

7. Post-closing and Endorsement

a. Pre-endorsement Review (03/14/2016)

The Mortgagee must complete a pre-endorsement review of the mortgage file to ensure all applicable documents as described in the Uniform Case Binder Stacking Order are included in the endorsement submission. The Mortgagee must exercise due diligence in performing its pre-endorsement responsibilities. This review must be conducted by staff not involved in the originating, processing, or underwriting of the Mortgage. The case binder must contain all documentation relied upon by the Mortgagee to justify its decision to approve the Mortgage.

b. Mortgagee Pre-endorsement Review Requirements (04/10/2025)

When conducting the pre-endorsement review, the Mortgagee must review and verify the following items, as applicable. All documents must be legible.

i. Late Submission Letter

The Mortgagee must confirm that the Late Submission Letter is completed, if necessary.

ii. Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*

The Mortgagee must confirm that the form is completed. The form must be signed and dated by the underwriter, as applicable.

iii. Note (Including Any Secondary Mortgage)

The Mortgagee must confirm that the Note is the Authoritative Copy, the Borrower name on the Note matches form HUD-92900-LT, and the required language from the Model Note is present. The Mortgagee must also confirm that:

- the Note has been executed;
- the mortgage amount is not higher than approved by the underwriter on form HUD-92900-LT;
- the term of the Mortgage is the same as on the Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*); and
- all applicable allonges, agreements, and riders are properly executed.

iv. Security Instrument

The Mortgagee must confirm that the security instrument:

- is the Authoritative Copy;
- has been executed (along with all riders indicated on the last page of the security instrument);
- includes the principal balance that is not higher than, and maturity date that is not different than, that approved by the underwriter; and
- lists the same property address as the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65).

v. Closing Disclosure and Settlement Certification

The Mortgagee must confirm that the Closing Disclosure or similar legal document is complete and signed by all required parties, and the Settlement Certification is complete and signed by the Borrower, seller (as applicable, except in case of HUD Real Estate Owned (REO) Sales), and settlement agent. The Settlement Certification is not required for refinance transactions. If the seller's Closing Disclosure or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final Closing Disclosure provided to the seller to keep in the case binder.

vi. Final Uniform Residential Loan Application

The Mortgagee must confirm the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) is signed and dated by the Mortgagee and all Borrowers. If the final *URLA* is not signed by the Mortgagee, the initial application signed by the Mortgagee is acceptable.

vii. Form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*

The Mortgagee must confirm that form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application,* is completed as instructed on the form.

viii. Credit Report(s)

The Mortgagee must confirm that the mortgage file contains a credit report for each Borrower. If the Borrower resides in a community property state, or if the Property is located in a community property state, confirm that the mortgage file contains a credit report for a non-borrowing spouse, unless excluded by state law. If there are multiple credit reports, all credit reports must be submitted in the case binder.

ix. CAIVRS Report

The Mortgagee must confirm that the mortgage file contains a clear Credit Alert Verification Reporting System (CAIVRS) report or documentation from the creditor agency to support the verification and resolution of the debt.

x. Asset Verification

The Mortgagee must confirm that the mortgage file contains the Verification of Deposit (VOD) and/or bank statements.

xi. Gift Letter

The Mortgagee must confirm that the mortgage file contains a gift letter if a Gift is shown on form HUD-92900-LT.

xii. Secondary Financing Documentation

The Mortgagee must confirm that the mortgage file contains a copy of the Mortgage and Note, if applicable.

xiii. Income Verification

The Mortgagee must confirm that the mortgage file contains verification of the Borrower's income.

xiv. Evidence of the Social Security Number

The Mortgagee must confirm that the mortgage file contains evidence of the Borrower's Social Security Number (SSN).

xv. Form HUD-92300, *Mortgagee's Assurance of Completion*

The Mortgagee must confirm that form HUD-92300, *Mortgagee's Assurance of Completion*, is completed and signed, if applicable.

xvi. Form HUD-92051, *Compliance Inspection Report*, or Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*

(A) Form HUD-92051, *Compliance Inspection Report*

The Mortgagee must confirm that form HUD-92051, *Compliance Inspection Report*, is completed, signed, and dated by an approved inspector. Local government inspection with the underwriter certification may be accepted.

(B) Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*

The Mortgagee must confirm that Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report,* Part B, is completed, signed, and dated by an FHA Appraiser in good standing on the FHA Appraiser Roster.

xvii. Form NPMA-33, *Wood Destroying Insect Inspection Report*

The Mortgagee must confirm that the file contains the National Pest Management Association (NPMA) form NPMA-33, *Wood Destroying Insect Inspection Report,* or the state mandated infestation report, as applicable.

xviii. Local Health Authority's Approval for Individual Water and Sewer Systems

The Mortgagee must confirm that the file contains the Local Health Authority's approval for Individual Water Supply Systems and sewer systems, if applicable.

xix. New Construction Exhibits

For New Construction, the Mortgagee must confirm that the documentation requirements found in the New Construction product sheet are in the mortgage file.

xx. Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*

The Mortgagee must confirm that form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, is completed.

xxi. Appraisal Report

The Mortgagee must confirm that the original Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, or other appropriate appraisal form, is complete and contains the Appraiser's signature and date.

xxii. Specialized Eligibility Documents

The Mortgagee must confirm that the mortgage file contains all required program-specific documents.

xxiii. Sales Contract and Addenda

The Mortgagee must confirm that the Sales Contract, addenda, and the Amendatory Clause are signed by all Borrowers and sellers. The Amendatory Clause is not required on REO Sales, or 203(k) Mortgages.

The Mortgagee must confirm that Real Estate Certification is signed by Borrowers, sellers, and selling real estate agent or broker if their signature is not contained within the purchase agreement.

c. Properties Located in Presidentially-Declared Major Disaster Areas Before Endorsement (06/27/2025)

The Mortgagee must exercise reasonable due diligence to determine if additional inspections or repairs are necessary before endorsement for all Properties with pending Mortgages or endorsements in areas under a Presidentially-Declared Major Disaster Area (PDMDA) designation for individual assistance. The Mortgagee must determine if a PDMDA will have an adverse effect on the Property's ability to serve as collateral for the Mortgage.

If repairs are required, they must be completed prior to endorsement, unless the Property is habitable and a repair escrow has been established in accordance with Repair Completion Escrow Requirements.

The Mortgagee must document any information relied upon to make their determination if additional inspections or repairs are necessary. If applicable, copies of any inspections and evidence of repairs or the repair escrow must be included in the Case Binder.

Streamline Refinances are allowed to proceed to closing and/or endorsement without any additional requirements.

d. Procedures for Endorsement (11/10/2026)

To initiate the insurance endorsement process, the Mortgagee must complete the Insurance Application function in FHAC and compile the uniform case binder, with all of the necessary documents.

Instructions for specific requirements for data format and delivery to FHAC are found in the FHA Connection Guide.

The Mortgage must be current to be eligible for endorsement.

Either the sponsoring Mortgagee, principal or authorized agent must:

- complete the Mortgage Insurance Premium (MIP) Transmittal via FHAC or by batch;
- pay the Upfront MIP (UFMIP) to FHA in a lump sum within 10 Days after mortgage closing or the Disbursement Date, whichever is later;
- send the MIP to FHA, and receive payment status through FHAC or email communications;
- submit evidence of assignment of the case for endorsement in the name of the originating Mortgagee; and
- transfer the case number to another Mortgagee prior to closing, complete the Lender Transfer screen in FHAC, and complete the assignment of the Mortgage after endorsement to a new holding or servicing Mortgagee via FHAC.

i. Late Upfront Mortgage Insurance Premium Payments

(A) 10-30 Days Late

A one-time late charge of 4 percent is assessed on an UFMIP payment received more than 10 Days after the mortgage closing or Disbursement Date, whichever is later. The Mortgagee must pay the late fee before FHA will endorse the Mortgage for insurance.

(B) More than 30 Days Late

If the UFMIP is paid more than 30 Days after mortgage closing or Disbursement Date, whichever is later, the Mortgagee will be assessed the late fee plus interest. The interest rate is the U.S. Department of the Treasury's Current Value of Funds Rate in effect when the UFMIP payment is received. The Mortgagee must pay both charges before FHA will endorse the Mortgage for insurance.

ii. Assembly of Case Binder for Electronic Submission

The Mortgagee must prepare and submit a uniform case binder through e-case submission in accordance with FHAC or through FHA Catalyst: Case Binder Module in accordance with the *FHA Catalyst: Case Binder Module User Guide*.

The Mortgagee must ensure that all case binders are complete, meet FHA specifications, contain all required documents, and are submitted electronically according to the document order designated below.

All appraisals must be submitted through FHA's EAD portal prior to endorsement. Complete instructions and data delivery format requirements for each appraisal form are found in the Appraisal Report and Data Delivery Guide.

Property Related Documents	
Conditional Commitment Direct Endorsement Statement of Appraised Value	HUD-92800.5B
Compliance Inspection Report	HUD-92051
Mortgagee Assurance of Completion	HUD-92300
Appraisal Update and/or Completion Report	Fannie Mae Form 1004D/Freddie Mac Form 442
Life of Loan Flood Certification	
Evidence of Flood Insurance (required if Property is in flood zone A or V.)	
Evidence of Hazard Insurance	
Wood Destroying Insect Inspection Report or state mandated report	NPMA-33
Waivers – Property specific issued by FHA	
Borrower's Contract with Respect to Hotel and Transient Use of Property	HUD-92561
New Construction Exhibits (for all Properties built or proposed in the last 12 months)	
Builder's Certification of Plans, Specifications, and Site	HUD-92541
Warranty of Completion of Construction	HUD-92544
Certificate of Occupancy (CO) and Building Permit	
Final Inspection	
3 FHA Inspections	
Local Health Authority Approval for Individual Water and Sewer Systems	
Subterranean Termite Protection Builder's Guarantee	HUD-NPMA-99-A
New Construction Subterranean Termite Service Record	HUD-NPMA-99-B
LOMR, LOMA, Elevation Certificate	

Manufactured Housing	
Engineer's Certification for Manufactured Housing Foundation	
LOMR, LOMA, Elevation Certificate (if not included with New Construction Docs)	
Condominiums	
Loan Level/Single-Unit Approval Questionnaire	HUD-9991
Other Required Condominium Documents	
Specialized Eligibility Documents	
Hawaiian Home Lands	
Presidentially-Declared Disaster Area	
Energy Efficient Documents & Home Energy Rating System (HERS) Report	
203(k) Documents	
Borrower's Acknowledgement	HUD-92700-A
Borrower Identity of Interest Certification	
Rehabilitation Self-Help Agreement	
Homeowner/Contractor Agreement	
Contractor & Borrower Cost Estimates	
Rehabilitation Loan Agreement	
Rehabilitation Loan Rider	
Consultant Work Write-Up	
Consultant Identity of Interest Certification	
Draw Request	HUD-9746-A
Purchase Transactions	
Sales Contract	
Amendatory Clause	
Real Estate Certification	
Other contract addenda or short sale approval	
Chain of Title and Title Evidence demonstrating Good and Marketable Title	
Underwriting Documentation	
Late Endorsement Letter	
FHA Connection Screen Prints	
FHA Loan Underwriting and Transmittal Summary	HUD-92900-LT
Underwriter Memos, Clarifications, or Attachments	
Automated Underwriting System (AUS) Feedback Certificate	
Mortgage Note for new first lien	
Security Instrument for new first lien	
Mortgage Riders & Allonges	
Secondary Lien Exhibits	
All Closing Disclosures or similar legal documents with addenda	

Loan Estimate	
FHA/RESPA/TILA Required Disclosures including Affiliated Business Arrangement Disclosure Statement if applicable	
Buydown Agreement	
Power of Attorney	
Uniform Residential Loan Application (URLA) – Initial and Final	Fannie Mae Form 1003/Freddie Mac Form 65
HUD Addendum to Uniform Residential Loan Application – Initial and Final	HUD-92900-A
Borrower Authorization for Verification	
Borrower Authorization for Use of Information Protected under Privacy Act	
Refinance Documentation	
Refinance Authorization Screen Printout	
Payoff Statement(s) for all liens to be satisfied with Mortgage proceeds	
Borrower Certification for Refinance of Borrowers in Negative Equity Position	HUD-92918
Chain of Title and Title Evidence demonstrating Good and Marketable Title	
Borrower Identification Documentation	
Evidence of Borrower's valid government-issued photo identification or written statement from Mortgagee verifying review of valid government-issued photo identification	
Evidence of Social Security Number (SSN) or Taxpayer Identification Number (TIN)	
Legal residency status documents for non-U.S. citizens	
Credit and Capacity Documentation	
Credit report(s)	
Verification of Mortgage or rent	
Credit related documentation and explanations	
Housing Counseling Certificate(s)	
Source of Funds Verification	
Verification of non-gift source of funds	
Verification of gift source of funds	
Income and Employment Documentation	
All required documentation grouped by Borrower	

iii. Case Binder Submission – Direct Endorsement Non-lender Insurance [Text was deleted in this section.]

The case binder must be submitted to FHA no later than 60 Days after the Disbursement Date.

(A) Late Submission

If the case binder is submitted more than 60 Days after the Disbursement Date, the Mortgagee must submit a late endorsement request, certifying that:

- no Mortgage Payment is currently unpaid;
- all escrow accounts for taxes, Hazard Insurance and MIPs are current and intact, except for Disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither the Mortgagee nor its agents provided the funds to bring and/or keep the Mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement request must:

- list the FHA case number;
- list the Borrower's name;
- be dated and signed by the Mortgagee's representative; and
- be printed on company letterhead with the Mortgagee's address and telephone number.

(B) After Receipt of a Notice of Return

Notice of Return (NOR) refers to a notification to the Mortgagee specifying the reason a Mortgage is not currently eligible for endorsement.

If FHA issues a NOR, the Mortgagee may request reconsideration for insurance endorsement. All requests for reconsideration must be received by FHA within the 60-Day endorsement submission period or within 30 Days of the issuance of the NOR, whichever is longer. If the request for reconsideration is submitted after this time period, the Mortgagee must follow the guidelines for late submission.

iv. Ineligible for Endorsement – Non-lender Insured [Text was deleted in this section.]

(A) Notice of Return

If the Mortgage is ineligible for insurance endorsement, FHAC issues a NOR, which states the reasons for non-endorsement and any corrective actions that the Mortgagee must take.

(B) Excessive Mortgage Amounts

An excessive mortgage amount occurs when the Mortgagee closes a Mortgage in an amount higher than what is permitted by FHA requirements. The Mortgage is not eligible for insurance until the amount is reduced to within permissible limits. The Mortgagee may choose to either pay down the principal balance, or re-close the Mortgage to an insurable amount.

The Mortgagee must provide a copy of the payment ledger showing that the principal balance has been paid down to an insurable amount.

v. Endorsement Processing – Lender Insurance

Once the Mortgagee has completed the entry of all required data, completed the pre-endorsement review, and satisfied itself that the Mortgage meets HUD requirements, it will click "yes" in the Insurance Decision field, enter the FHA Connection ID of the individual insuring the Mortgage, enter the insurance date on the Insurance Application screen and click "send."

The Mortgagee must endorse the Mortgage no later than 60 Days after the Disbursement Date.

Late Submission

If the Mortgage is endorsed more than 60 Days after the Disbursement Date, the Mortgagee must complete a late endorsement certification stating:

- no Mortgage Payment is currently unpaid;
- all escrow accounts for taxes, Hazard Insurance and MIPs are current and intact, except for Disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither the Mortgagee nor its agents provided the funds to bring and/or keep the Mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement certification must:

- list the FHA case number;
- list the Borrower's name;
- be dated and signed by the Mortgagee's representative; and
- be printed on company letterhead with the Mortgagee's address and telephone number.

The Mortgagee must retain the certification in the case binder.

vi. Case Warnings – Lender Insurance

Case warnings are issued by FHAC based on system edits. They identify issues that must be addressed before the Mortgage can be insured. There are two kinds of case warnings: non-severe and severe.

(A) Severe Case Warnings [Text was deleted in this section.]

Severe case warnings are case warnings that make the Mortgage ineligible for Lender Insurance (LI), which include:

- a Borrower failed or is pending SSN validation;
- a Borrower has a record in CAIVRS; or
- a deficiency exists causing risks to HUD. FHA will add text to the case warning message screen identifying the reasons requiring submission of the case binder to FHA for a pre-endorsement review.

Once the severe case warning is corrected, documentation in support of clearing the case warning and the case binder must be submitted to FHA for pre-endorsement review and endorsement processing.

(B) Non-severe Case Warnings

Non-severe case warnings are warnings to provide guidance to the Mortgagee that conditions have been detected and must be researched before the Mortgage can be endorsed. If, after researching the matter, the Mortgagee determines that HUD requirements have not been violated, the Mortgagee may resubmit the Mortgage for insurance.

By resubmitting the information, the Mortgagee is representing that the warning has been reviewed and the Mortgage is eligible for insurance endorsement. FHAC will then allow the Mortgage to be insured by the Mortgagee.

vii. Mortgagee with Conditional Direct Endorsement Approval (Test Case)

Mortgagees who receive a Direct Endorsement Program Test Case Phase approval letter from FHA must follow the Test Case Phase Case Binder Submission process.

e. Endorsement and Post-endorsement (04/18/2023)

i. Endorsement

Upon successful completion of a pre-endorsement review either by FHA or the LI Mortgagee, an electronic Mortgage Insurance Certificate (MIC) will be issued.

The Mortgage becomes insured on the date the MIC is issued.

ii. Post-endorsement

(A) Confirming Status of the Mortgage Insurance Certificate

The Mortgagee can confirm the endorsement status of a Mortgage using FHAC or FHA Connection Business to Government (FHAC-B2G) application.

(B) Obtaining the Mortgage Insurance Certificate

When requesting the MIC, the Mortgagee must specify whether it is to be prepared in the name of the originator (principal), or authorized agent, as it appears in HUD Systems.

The MIC will be issued electronically. The Mortgagee can download and print copies of the MIC as needed.

(C) Corrections to the Mortgage Insurance Certificate

To obtain a correction to the MIC, the Mortgagee must submit the MIC Correction Request Template to the FHA Resource Center. This form may be used to correct the property address, Borrower name, ADP Code, maturity and first payments dates, P&I, interest rate, SSN, FHA case number, mortgage amount or other information contained in the MIC, or to add a co-Borrower.

(D) Corrections to Original Instruments

The Mortgagee must follow applicable local law when making corrections to the original instruments.

If new instruments are executed as required by local law, the Mortgagee must submit the new instruments prior to insurance endorsement.

(E) Partial Release of Security

FHA approval for partial release of security is required except in limited circumstances. See FHA servicing policy for more information.

iii. Case Binder Submission – Lender Insurance Mortgagees

LI Mortgagees must submit the case binder to FHA upon request within 10 business days and will be notified through a system-generated daily email.

iv. Mortgage File Retention

The Mortgagee must retain their mortgage file, including the case binder, in either hard copy or electronic format for a period of two years from the date of endorsement.

Mortgagees retaining eCBs are not required to maintain a separate version of the eCB indexed for electronic submission to HUD.

If HUD requests a case binder that is maintained electronically, the Mortgagee must follow the requirements in the eCB Developer's Guide.

8. Programs and Products

a. 203(k) Rehabilitation Mortgage Insurance Program (11/10/2026)

i. Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance outstanding indebtedness on the Structure and the Real Property on which the Structure is located;
- purchase and rehabilitate a Structure and purchase the Real Property on which the Structure is located; or
- rehabilitate the interior space of an eligible Condominium Unit excluding any areas that are the responsibility of the Condominium Association.

Structure refers to a building that has a roof and walls, stands permanently in one place, and contains single or multiple housing units that are used for human habitation. For 203(k) Rehabilitation Mortgage eligibility, a one-family dwelling unit in a multi-unit Condominium Project may be considered a single-unit Structure and a townhouse in townhouse-style condominium may be considered a single-unit Structure provided each townhouse-style unit is separated by a one and one-half hour firewall from foundation to roof.

Mortgages to be insured under Section 203(k) must be processed and underwritten in accordance with the requirements in Origination through Post-closing/Endorsement, except where noted otherwise in this section.

(A) Types of 203(k) Rehabilitation Mortgages

There are two types of 203(k) Rehabilitation Mortgages: Standard 203(k) and Limited 203(k), as described below. The guidance in this section is applicable to both Standard 203(k) and Limited 203(k) Mortgages unless noted otherwise.

(1) Standard 203(k)

The Standard 203(k) Mortgage may be used for remodeling and repairs. There is a minimum repair cost of $5,000 and the use of a 203(k) Consultant is required.

(2) Limited 203(k)

The Limited 203(k) may only be used for minor remodeling and nonstructural repairs. The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used. The total rehabilitation costs must not exceed $75,000. The Limited 203(k) total rehabilitation cost limit will be evaluated on an annual basis in conjunction with the process undertaken for the establishment of FHA's Nationwide Forward Mortgage Loan Limits. If it is determined that an increase to

the Limited 203(k) loan limit is warranted, the new limit will be announced concurrent with the publication of the Nationwide Forward Mortgage Loan Limits announcement.

(B) Eligible Supplemental Programs and Products

A 203(k) Mortgage may be used in conjunction with the following:

- Section 203(h) Mortgage Insurance for Disaster Victims
- Energy Efficient Mortgages
- Solar and Wind Technologies

ii. Borrower Eligibility

The Borrower must meet the eligibility requirements found in the Borrower Eligibility section, and the additional guidance provided here related to nonprofit agency Borrowers.

The Mortgagee must verify and document the nonprofit agency Borrower's caseload. The Mortgagee must review the Nonprofit List in FHA Connection (FHAC), and ensure the maximum 203(k) case load limitation is not exceeded for nonprofit Borrowers.

(A) Rental Income Received from the Subject Property

One-Unit with an Accessory Dwelling Unit

If the subject Property is a one-unit with an Accessory Dwelling Unit (ADU) and the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, to calculate the Effective Income the Mortgagee must use 50 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

Mortgagees must apply this requirement for both Mortgages underwritten through TOTAL Scorecard and manual underwriting.

iii. Property Eligibility

The Property must be an existing Property that has been completed for at least one year prior to the case number assignment date. If the Mortgagee is unsure whether the Property has been completed for at least one year, the Mortgagee must request a copy of the Certificate of Occupancy (CO) or equivalent.

A Property that is not eligible for a 203(b) Mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.

A Property with an existing 203(k) Mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.

The following property types may be financed:

- a one- to four-unit Single Family Structure, including a Condominium Unit;
- a Site Condominium unit;
- Manufactured Housing where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and must comply with all other requirements for Manufactured Housing;
- a Mixed Use Property with one- to four-residential units, provided:
  - 51 percent of the Gross Building Area (GBA) is for residential use; and
  - commercial use will not affect the health and safety of the occupants of the residential Property; and
- a HUD Real Estate Owned (REO) Property:
  - the Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO Properties are not eligible for 203(k) financing.

(A) Dwelling Unit Limitation

A Mortgagee may determine that units in a neighborhood are not subject to the Dwelling Unit Limitation of no more than seven Dwelling Units within a two block radius when:

- the neighborhood has been targeted by a state or local government for redevelopment or revitalization;
- the state or local government has approved and submitted a plan to HUD describing the program of neighborhood redevelopment and revitalization, including the geographic area targeted for redevelopment, and the nature and proportion of public or private commitments that have been made in support of the redevelopment;
- the nonprofit agency borrower will own no more than 10 percent of the Dwelling Units (regardless of financing type) in the designated redevelopment area; and
- the nonprofit agency borrower will have no more than eight Dwelling Units on adjacent lots.

The Mortgagee must review the approved redevelopment plan to ensure that the units in which the nonprofit agency has or will have a financial interest are located within the targeted geographic area. The Mortgagee must also review public records to determine that the agency does not exceed the limitations on the number of units that they may own in the redevelopment area, and that they have no more than eight adjacent units.

(B) Required Documentation

The Mortgagee must obtain the following documentation:

- a copy of the redevelopment plan; and
- evidence that the state or local government approved the plan.

The Mortgagee must submit the documentation to HUD in the case binder.

iv. Application Requirements

The Mortgagee must provide the Borrower with the form HUD-92700-A, *203(k) Borrower's Acknowledgement*.

v. Case Number Assignment Data Entry Requirements

In order to request a case number for a 203(k) Mortgage, the Mortgagee must enter the following information:

(A) 203(k) Program Type Indicator

The Mortgagee must select either Standard 203(k) or Limited 203(k) as the program type.

(B) Consultant Selection and Identification Number

(1) Consultant Selection

The use of a 203(k) Consultant is required for a Standard 203(k) Rehabilitation Mortgage. The Limited 203(k) Mortgage does not require the use of a 203(k) Consultant, but a Consultant may be used.

When using a Consultant, the Mortgagee must select an FHA-approved 203(k) Consultant that is active on the FHA 203(k) Consultant Roster for the state in which the Property is located.

The Mortgagee must not use the services of a 203(k) Consultant who has demonstrated previous poor performance based on reviews conducted by the Mortgagee.

(2) Consultant Identification Number

The Mortgagee must enter the Consultant identification number into the "Consultant ID" field on the Case Number Assignment screen in FHAC. For a Limited 203(k) with no Consultant, the Mortgagee must enter "203KS" in the "Consultant ID" field.

(C) Automated Data Processing Code

The Mortgagee must enter the appropriate 203(k) Automated Data Processing (ADP) code.

(D) Construction Code

The Mortgagee must enter "Substantial Rehabilitation" in the drop-down menu labeled "Construction Code."

(E) Refinance Type

For a refinance transaction, the Mortgagee must select "Not Streamlined" in the drop-down menu labeled "All Refinances."

(F) Converting From a Non-203(k) to a 203(k) Mortgage

If the Mortgagee had originally requested the case number assignment for a non-203(k) Mortgage, the Mortgagee must update the existing case data in the Case Number Assignment screen, changing the ADP Code to a valid 203(k) ADP Code and the "Construction Code" to "Substantial Rehabilitation."

vi. Standard 203(k) Transactions

(A) Standard 203(k) Eligible Improvements

The Standard 203(k) requires a minimum of $5,000 in eligible improvements.

(1) Types of Improvements

Types of eligible improvements include, but are not limited to:

- converting a one-family Structure to a one-family Structure with an ADU, two-, three-, or four-family Structure;
- adding an Accessory Dwelling Unit (ADU) that will be attached to an existing Structure;
- renovating an existing ADU that is attached or unattached to an existing Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used;
- repairing, reconstructing, or elevating an existing foundation where the Structure will not be demolished;
- purchasing an existing Structure on another site, moving it onto a new foundation, and repairing/renovating it;
- making structural alterations such as the repair or replacement of structural damage, additions to the Structure, and finished attics and/or basements;
- rehabilitating, improving, or constructing a garage;
- eliminating health and safety hazards that would violate HUD's Minimum Property Requirements (MPR);

- installing or repairing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC, and electrical systems;
- making changes for improved functions and modernization;
- making changes for aesthetic appeal;
- repairing or adding roofing, gutters, and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- making site improvements;
- landscaping;
- installing or repairing exterior decks, patios, and porches;
- constructing a windstorm shelter; and
- covering lead-based paint stabilization costs, if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule (24 CFR §§ 200.805 and 200.810(c)) and the U.S. Environmental Protection Agency's (EPA) Renovation, Repair and Painting Rule (40 CFR Part 745, especially subparts E and Q).

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR and meet or exceed local building codes. For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local codes and the requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice.

(b) Specific Improvement Standards

Any addition of a Structure unit must be attached to the existing Structure. Site improvements, landscaping, patios, decks and terraces must increase the As-Is Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the Property from erosion.

(B) Standard 203(k) Ineligible Improvements/Repairs

The 203(k) mortgage proceeds **may not** be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a

permanent part of the subject Property, or improvements that solely benefit commercial functions within the Property, including:

- recreational or luxury improvements, such as:
  - swimming pools (existing in-ground swimming pools can be repaired)
  - an exterior hot tub, spa, whirlpool bath, or sauna
  - barbecue pits, outdoor fireplaces or hearths
  - bath houses
  - tennis courts
  - satellite dishes
  - tree surgery (except when eliminating an endangerment to existing improvements)
  - photo murals
  - gazebos; or
- additions or alterations to support commercial use or to equip or refurbish space for commercial use.

(C) Standard 203(k) Establishing Repairs and Improvements

The Mortgagee must select an FHA-approved 203(k) Consultant from the FHA 203(k) Consultant Roster in FHAC. The Mortgagee must not use the services of a Consultant who has demonstrated previous poor performance based on reviews performed by the Mortgagee. The Consultant must inspect the Property and prepare the Work Write-Up and Cost Estimate. The Mortgagee must verify that the name shown in the 203(k) Consultant's Certification matches the selected 203(k) Consultant.

The Work Write-Up refers to the report prepared by a 203(k) Consultant that identifies each Work Item to be performed and the specifications for completion of the repair.

Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant.

Work Item refers to a specific repair or improvement that will be performed.

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Consultant must identify on the Work Write-Up each Work Item to be performed by the Borrower. The Borrower must not be reimbursed for labor costs.

(D) Standard 203(k) Financeable Repair and Improvement Costs and Fees

The following repair and improvement costs and fees may be financed:

- costs of construction, repairs and rehabilitation;
- architectural/engineering professional fees;

- the 203(k) Consultant fee subject to the limits in the 203(k) Consultant Fee Schedule section;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees;
- permits; and
- a Feasibility Study, when necessary to determine if the rehabilitation is feasible.

Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, the Mortgagee must include the costs for labor and materials for each Work Item to be completed by the Borrower under a Rehabilitation Self-Help Agreement.

(E) Standard 203(k) Financeable Contingency Reserves

Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

The Mortgagee must refer to the following chart to determine when a Contingency Reserve is required. The minimum and maximum Contingency Reserve is established as a percentage of the financeable repair and improvement costs.

For Structures with an actual age of less than 30 years:

	Minimum	Maximum
Required when evidence of termite damage	10%	20%
Discretionary	No Minimum	20%

For Structures with an actual age of 30 years or more:

	Minimum	Maximum
Required	10%	20%
Required when utilities are not operable as referenced in the Work Write-Up	15%	20%

The Borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

(F) Standard 203(k) Financeable Mortgage Payment Reserves

A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation.

A Mortgagee may establish a financeable Mortgage Payment Reserve, not to exceed 12 months of Mortgage Payments. The Mortgage Payment Reserve may include Mortgage Payments only for the period during which the Property cannot be occupied. The number of Mortgage Payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement.

For multi-unit Properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied. To calculate the amount that can be included in the Mortgage Payment Reserve, the Mortgagee will divide the monthly Mortgage Payment by the number of units in the Property and multiply that figure by the number of units that cannot be occupied. The resulting figure is the amount of the Mortgage Payment that will be paid through the Mortgage Payment Reserve. The Borrower is responsible for paying the servicing Mortgagee the portion of the Mortgage not covered by the Mortgage Payment Reserve.

(G) Standard 203(k) Financeable Mortgage Fees

The Mortgagee may finance the following fees and charges.

(1) Origination Fee

The Mortgagee may finance a portion of the Borrower-paid origination fee not to exceed the greater of $350, or 1.5 percent of the total of the financeable repair and improvement costs and fees, financeable Contingency Reserves, and financeable Mortgage Payment Reserves.

(2) Discount Points

The Mortgagee may finance a portion of the Borrower-paid Discount Points not to exceed an amount equal to the discount point percentage multiplied by the total of financeable repair and improvement costs and fees, financeable Contingency Reserves, and financeable Mortgage Payment Reserves.

(H) Standard 203(k) Required Documentation and Review

(1) Review of Contractor Qualifications

Prior to closing, the Mortgagee must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the Work Write-Up for the amount of the Cost Estimate and within the allotted time frame. To determine whether the contractor is qualified, the

Mortgagee must review the contractor's credentials, work experience and client references, and ensure that the contractor meets all jurisdictional licensing and bonding requirements.

(2) Consultant's Work Write-Up and Cost Estimate

The Mortgagee must obtain the Consultant's Work Write-Up and Cost Estimate for all Standard 203(k) Mortgages. The Mortgagee must ensure the Work Write-Up/Cost Estimate specifies the type of repair and cost of each Work Item. The Mortgagee must review the Work Write-Up and ensure that all health and safety issues identified were addressed before, including additional Work Items.

(3) Architectural Exhibits

The Mortgagee must obtain and review all applicable architectural exhibits.

(4) Sales Contract

The Mortgagee must ensure the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the Borrower is financing a HUD REO Property, the Mortgagee must ensure that the first block on Line 4 of form HUD-9548, *Sales Contract Property Disposition Program,* is checked, as well as the applicable block for 203(k).

vii. Limited 203(k) Transactions

(A) Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and nonstructural repairs. The total rehabilitation costs may not exceed $75,000.

(1) Types of Improvements

Eligible improvement types include, but are not limited to:

- eliminating health and safety hazards that would violate HUD's MPR;
- repairing or replacing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC, and electrical systems;
- making changes for improved functions and modernization;
- eliminating obsolescence;
- repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts;
- making energy conservation improvements;

- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- installing, replacing or repairing exterior decks, patios, and porches; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA's Renovation, Repair and Repainting Rule.

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR and meet or exceed local building codes.

(b) Specific Improvement Standards

Patios and decks must increase the As-Is Property Value equal to the dollar amount spent on the improvements.

(B) Limited 203(k) Ineligible Improvements/Repairs

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. FHA considers a repair to be "major" when any of the following are applicable:

- the repair or improvements are expected to require more than nine months to complete;
- the rehabilitation activities require more than four draws per contractor;
- the required repairs arising from the appraisal:
  - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
  - require plans or architectural exhibits; or
- the repair prevents the Borrower from occupying the Property for more than a total of 30 Days during the rehabilitation period.

Additionally, the Limited 203(k) mortgage proceeds **may not** be used to finance the following specific repairs:

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished;
- repairing, reconstructing or elevating an existing foundation;

- purchasing an existing Structure on another site and moving it onto a new foundation;
- making structural alterations such as the repair of structural damage and New Construction, including room additions;
- landscaping and site improvements;
- constructing a windstorm shelter;
- making additions or alterations to support commercial use or to equip or refurbish space for commercial use; and/or
- making recreational or luxury improvements, such as:
  - new swimming pools;
  - an exterior hot tub, spa, whirlpool bath, or sauna;
  - barbecue pits, outdoor fireplaces or hearths;
  - bath houses;
  - tennis courts;
  - satellite dishes;
  - tree surgery (except when eliminating an endangerment to existing improvements);
  - photo murals; or
  - gazebos.

(C) Limited 203(k) Establishing Repair and Improvement Costs

The Borrower must submit a Work Plan to the Mortgagee and use one or more contractors to provide the Cost Estimate and complete the required improvements and repairs. The contractors must be licensed and bonded if required by the local jurisdiction. The Borrower must provide the contractors' credentials and bids to the Mortgagee.

The Mortgagee must review the contractors' credentials, work experience and client references and ensure that the contractors meet all jurisdictional licensing and bonding requirements. The Mortgagee must examine the work plan and the contractors' bids and determine if they fall within the usual and customary range for similar work.

The Mortgagee may require the Borrower to provide additional Cost Estimates if necessary.

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Borrower must submit a work plan detailing the Work Items to be performed by the Borrower and a Cost Estimate from a contractor other than the Borrower that provides a breakdown of the cost for labor and materials for each Work Item. The contractor must be licensed and bonded if required by the local jurisdiction. The Borrower must not be reimbursed for labor costs.

(D) Limited 203(k) Financeable Repair and Improvement Costs and Fees

The following costs and fees may be financed:

- costs of construction, repairs, and rehabilitation;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- the 203(k) Consultant fee, subject to the limits in the 203(k) Consultant Fee Schedule section;
- title update fees; and
- permits.

Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, the Mortgagee must include the costs for labor and materials for each Work Item to be completed by the Borrower under a Rehabilitation Self-Help Agreement.

(E) Limited 203(k) Financeable Contingency Reserves

A Contingency Reserve is not mandated; however, at the Mortgagee's discretion, a Contingency Reserve account may be established and may be financed. The Contingency Reserve account may not exceed 20 percent of the financeable repair and improvement costs.

The Borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

(F) Limited 203(k) Financeable Mortgage Fees

The Mortgagee may include the following fees and charges in the rehabilitation Cost Estimates.

(1) Origination Fee

The Mortgagee may include a portion of the Borrower-paid origination fee not to exceed the greater of $350, or 1.5 percent of the total of the financeable repair and improvement costs and fees and financeable Contingency Reserves.

(2) Discount Points

The Mortgagee may include a portion of the Borrower-paid Discount Points not to exceed an amount equal to the discount point percentage multiplied by total of financeable repair and improvement costs and fees and financeable Contingency Reserves.

(G) Limited 203(k) Ineligible Fees and Costs

The following fees and costs **may not** be financed under the Limited 203(k):

- Mortgage Payment Reserves
- architectural/engineering professional fees
- a Feasibility Study

(H) Limited 203(k) Required Documentation

The following documentation is required for the Limited 203(k).

(1) Work Plan

The Mortgagee must obtain a work plan from the Borrower detailing the proposed repairs or improvements. The Borrower may develop the work plan themselves or engage an outside party, including a Contractor or a 203(k) Consultant, to assist. There is no required format for the work plan.

(2) Written Proposal and Cost Estimates

The Mortgagee must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement. The Mortgagee must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The written proposal must indicate Work Items that require permits and state that repairs are nonstructural. The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

The Mortgagee must obtain written Cost Estimates for each Work Item, broken down by labor and materials, to be performed by the Borrower under a self-help agreement.

(3) Sales Contract

The Mortgagee must obtain a copy of the sales contract and ensure that the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the Borrower is financing a HUD REO Property, the Mortgagee must ensure that the first block on Line 4 of form HUD-9548 is checked, as well as the applicable block for 203(k).

viii. Appraisals for Standard 203(k) and Limited 203(k)

(A) Establishing Value

The Mortgagee must establish both an Adjusted As-Is Value and an After Improved Value of the Property.

(1) Appraisal Reports

An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property. Except as described below in cases of Property Flipping and refinance transactions, the Mortgagee is not required to obtain an as-is appraisal and may use alternate methods mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value.

(2) Adjusted As-Is Value

The Mortgagee must establish the Adjusted As-Is Value as described below.

(a) Purchase Transactions

For purchase transactions, the Adjusted As-Is Value is the lesser of:

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

The As-Is Property Value refers to the as-is value as determined by an FHA Roster Appraiser, when an as-is appraisal is obtained.

In the case of Property Flipping, the Mortgagee must obtain an as-is appraisal if needed to comply with the Property Flipping guidelines.

(b) Refinance Transactions

_(i)_ Properties Acquired Greater Than or Equal to 12 Months Prior to the Case Assignment Date

The Mortgagee must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items exceeds the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees;
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only).

When an appraisal is obtained, the Adjusted As-Is Value is the As-Is Property Value.

The Mortgagee has the option of using the existing debt plus fees associated with the new Mortgage or obtaining an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items does not exceed the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees;
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only).

Existing debt includes:

- the unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
- the unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
- the unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
- interest due on the existing Mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages.

(ii) Properties Acquired Less Than 12 Months Prior to the Case Assignment Date

For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained.

The Adjusted As-Is Value is the As-Is Property Value.

For properties acquired by the Borrower within 12 months of the case assignment date by inheritance or through a Gift from a Family Member, the Mortgagee may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

(3) After Improved Value

To establish the After Improved Value, the Mortgagee must obtain an appraisal of the Property subject to the repairs and improvements.

(B) Documents to be Provided to the Appraiser at Assignment

The Mortgagee must provide the Appraiser with a copy of the Consultant's Work Write-Up and Cost Estimate for a Standard 203(k), or the work plan, contractor's proposal and Cost Estimates for a Limited 203(k).

ix. Maximum Mortgage Amount for Purchase

The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:

- the appropriate Loan-to-Value (LTV) ratio from the Loan-to-Value Limits, multiplied by the lesser of:
  - the Adjusted As-Is Value, plus:
    - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
    - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
    - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
    - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
  - 110 percent of the After Improved Value (100 percent for condominiums); or
- the Nationwide Mortgage Limits.

For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or $100 Down sales incentive, the Mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO purchasing.

x. Maximum Mortgage Amount for Refinance

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

1. the existing debt and fees associated with the new Mortgage, plus:
   - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
   - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
   - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
   - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
2. the appropriate LTV ratio below, multiplied by the lesser of:
   - the Adjusted As-Is Value, plus:
     - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);

- Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
- Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
- Financeable Mortgage Payment Reserves, for Standard 203(k) only; or

- 110 percent of the After Improved Value (100 percent for condominiums); or

3. the Nationwide Mortgage Limits.

(A) Loan-to-Value Ratios for Refinance

The table below describes the relationship between the Borrower's Minimum Decision Credit Score and the LTV ratio for which they are eligible.

If the Borrower's Minimum Decision Credit Score is:	Then the Borrower is:
at or above 580	eligible for maximum financing of 97.75%
between 500 and 579	limited to a maximum LTV of 90%

For Secondary Residences, the maximum LTV is 85 percent.

(B) Required Documentation

The Mortgagee must obtain the mortgage payoff statement for existing debt.

xi. Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, Weatherization items, and solar energy systems. The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

For Limited 203(k) transactions, the costs for energy improvements can be in addition to the $75,000 limit on total rehabilitation costs.

xii. Combined Loan-to-Value

(A) Secondary Financing Provided by Governmental Entities, Homeownership and Opportunity for People Everywhere Grantees, and HUD-Approved Nonprofits

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing meeting the requirements found in Governmental Entities, Homeownership and Opportunity for People Everywhere (HOPE) Grantees, and HUD-Approved Nonprofits.

(B) Secondary Financing Provided by Family Members

There is no maximum CLTV for secondary financing meeting the requirements found in Family Members.

(C) Secondary Financing Provided by Private Individuals and Other Organizations

The maximum CLTV for secondary financing provided by private individuals and other organizations is 110 percent of the After Improved Value. Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum downpayment requirement.

xiii. Mortgage Insurance Premium

The Mortgagee must comply with the MIP requirements found in the MIP Chart.

For the purpose of calculating the LTV for application of the MIP, the Mortgagee must divide the Base Loan Amount by the After Improved Value.

xiv. Underwriting

The Mortgagee must comply with the underwriting requirements found in Origination through Post-closing/Endorsement and the additional guidance provided below.

(A) Required Documentation Standard 203(k) and Limited 203(k)

(1) Identity-of-Interest Certification

Identity of Interest refers to a transaction between Family Members, business partners or other business affiliates.

Conflict of Interest refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction.

Sales transactions between Family Members and tenants/landlords that meet the requirements for the exception in Exceptions to the Maximum LTV are permitted. The Mortgagee must ensure there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification that is placed in the case binder.

If the Borrower selected a 203(k) Consultant to perform a Feasibility Study, the Mortgagee may select the same 203(k) Consultant for the project without creating an Identity of Interest.

(a) Borrower's Certification

The Borrower must sign a certification stating the following:

I hereby certify to the Department of Housing and Urban Development (HUD) and (Mortgagee), that I/We ___ do or ___do not have an identity-of-interest with the seller. I/We do not have an identity-of-interest with the 203(k) Consultant of the property. I also certify that I/We do not have a conflict-of-interest with any other party to the transaction, including the real estate agent, mortgagee, contractor, 203(k) Consultant and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a buyer for another individual, partnership, company or investment club and I/We ___will or ___will not occupy the residence I/We are purchasing or refinancing.

I/We, the undersigned, certify under penalty of perjury that the information provided above is true, accurate, and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).

_____ _____
Borrower's Signature *Date*

_____ _____
Co-Borrower's Signature *Date*

(b) 203(k) Consultant's Certification

All 203(k) Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent, appraiser, plan reviewer, contractor, subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and that the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

I/We, the undersigned, certify under penalty of perjury that the information provided above is true, accurate, and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).

Consultant's Signature *Date*

(2) Borrower Acting as General Contractor or Doing Own Work (Self-Help)

The Mortgagee must document approval for the Borrower to act as the general contractor or to complete their own work.

- The Mortgagee must verify and document that the Borrower is either a licensed general contractor or can document experience in completing rehabilitation projects.
- The Mortgagee must ensure the Borrower demonstrates the necessary expertise and experience to perform the specific repair competently and in a timely manner.
- The Mortgagee must instruct the Borrower of the requirement to maintain complete records showing the actual cost of rehabilitation, including paid receipts for materials and Lien Waivers from any subcontractors.
- The Mortgagee must ensure all permits are obtained prior to commencement of work.
- The Mortgagee must obtain Cost Estimates that clearly state the cost for completion of each Work Item, including the cost of labor and materials; however, only materials cost will be reimbursed.
- The Mortgagee must obtain a signed Rehabilitation Self-Help Agreement from the Borrower.

(3) Repairs Noted by the Appraiser

When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, the Mortgagee must ensure the repairs are included in the Consultant's final Work Write-Up or the Borrower's final work plan.

(4) Form HUD-92700-A, *203(k) Borrower's Acknowledgement*

The Mortgagee must obtain an executed form HUD-92700-A, *203(k) Borrower's Acknowledgement*.

(5) Feasibility Study

If a Feasibility Study was performed to determine if the project is financially feasible, the Mortgagee must obtain a copy of the study.

(6) Borrower Contractor Agreement

The Mortgagee must obtain a written agreement between the Borrower and the general contractor, or if there is no general contractor, for each contractor. The contractor must agree in writing to complete the work for the amount of the Cost Estimate and within the allotted time frame.

(B) Required Documentation for Standard 203(k) Only

(1) Consultant Final Work Write-Up and Cost Estimate

The Mortgagee must obtain the final Work Write-Up and Cost Estimate from the Consultant. The final Work Write-Up must include all required repairs and improvements to meet HUD's Minimum Property Standards (MPS) and MPR (as applicable) and the Borrower's electives.

The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

(2) Architectural Exhibits

The Mortgagee must obtain and review all required architectural exhibits included in the Consultant's final Work Write-Up.

(3) Consultant/Borrower Agreement

The Mortgagee must obtain a written agreement between the Consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection," as detailed in the disclosure form HUD-92564-CN, *For Your Protection: Get a Home Inspection*.

(C) Required Documentation for Limited 203(k) Only

Contractor's Cost Estimate

The Mortgagee must obtain the final contractor's itemized estimate of the repairs and improvements to be completed for all Work Items.

xv. Closing

(A) Standard

The Mortgagee must comply with requirements found in the Closing section and the additional guidance provided below.

There is only one closing that includes the rehabilitation funds. The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

(1) Establishing the Rehabilitation Escrow Account

(a) Standard 203(k)

The Mortgagee must establish an interest-bearing rehabilitation escrow account to include, as applicable:

- Standard 203(k) Financeable Repair and Improvement Costs and Fees;
- Standard 203(k) Financeable Contingency Reserves;
- Standard 203(k) Financeable Mortgage Payment Reserves;
- the cost of EEM, weatherization or solar energy systems improvements; and
- the Borrower's own funds for Contingency Reserves.

(b) Limited 203(k)

The Mortgagee must establish an interest-bearing rehabilitation escrow account to include, as applicable:

- Limited 203(k) Financeable Repair and Improvement Costs and Fees;
- Limited 203(k) Financeable Contingency Reserves;
- the cost of EEM, weatherization or solar energy systems improvements; and
- the Borrower's own funds for Contingency Reserves.

(c) Escrow Closeout Certification Screen

The Mortgagee must complete all applicable fields on the Escrow Closeout Certification screen in FHAC.

(2) Initial Draw at Closing

The Mortgagee must document the amount and purpose of an initial draw at closing on the form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(a) Standard 203(k)

For Standard 203(k) transactions, Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences);
- prepaid architectural or engineering fees;
- prepaid Consultant fees;
- origination fees;
- Discount Points;
- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

For any Disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the Contingency Reserve.

(b) Limited 203(k)

For Limited 203(k) transactions, Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences);
- origination fees;
- Discount Points; and
- up to 50 percent of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.

(B) Required Documentation

(1) Rehabilitation Loan Agreement

The Mortgagee and Borrower must execute the Rehabilitation Loan Agreement, which establishes the conditions under which the Mortgagee will disburse the rehabilitation escrow account funds.

The Rehabilitation Loan Agreement is incorporated by reference and made a part of the security instrument.

(a) Standard 203(k) Rehabilitation Period

The Mortgagee must review the 203(k) Consultant's Work Write-Up to determine the time frame for completion of repairs not to exceed 12 months.

(b) Limited 203(k) Rehabilitation Period

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed nine months.

(2) Security Instrument and Rehabilitation Loan Rider

If the Mortgage involves releases from the rehabilitation escrow account, the following language must be placed in the security instrument:

"Provisions pertaining to releases are contained in the Rehabilitation Loan Rider, which is attached to this mortgage and made a part hereof."

The Rehabilitation Loan Rider is a required modification to a security instrument.

xvi. Data Delivery/203(k) Calculator [Text was deleted in this section.]

The 203(k) Calculator enables Mortgagees to calculate the Maximum Mortgage amount, LTV for MIP, and the amount to establish a repair escrow when required for all 203(k) transactions.

Required data for the 203(k) Calculator are:

- 203(k) Program Type (Standard 203(k) or Limited 203(k));
- As-Is Property Value;
- Adjusted As-Is Value;
- After Improved Value;
- existing debt on the Property for a refinance;
- credit for lead-based paint stabilization per HUD REO contract (if applicable);
- Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
- Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k);
- Financeable Mortgage Payment Reserves, for Standard 203(k) only;
- Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
- cost of EEM or solar energy systems improvements; and
- principal balance of secondary financing provided by private individuals and other organizations.

xvii. Post-closing and Endorsement

The Mortgagee must comply with requirements in Post-closing and Endorsement.

203(k) Mortgages are eligible for endorsement after the initial mortgage proceeds are disbursed and a rehabilitation escrow account is established.

(A) Rehabilitation Period

The rehabilitation period starts when the Mortgage is funded.

The rehabilitation period is specified in the Rehabilitation Loan Agreement.

(B) Extension Requests

If the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension. The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current or the Borrower is complying with the terms of the forbearance.

(1) Required Documentation

The Mortgagee must obtain:

- evidence that the Mortgage is current or the Borrower is complying with the terms of the forbearance;
- an explanation for the delay from the Borrower, contractor, or Consultant; and
- a new estimated completion date.

(2) Escrow Closeout Certification Screen

The Mortgagee must complete the required fields on the Escrow Closeout Certification screen in FHAC to document the approval or the denial for the extension request of the rehabilitation period specified in the Rehabilitation Loan Agreement.

(C) Failure to Start or Complete Work

As stated in the Rehabilitation Loan Agreement, the Mortgagee may consider the Mortgage to be in default if work:

- has not started within 30 Days of the Disbursement Date;
- ceases for more than 30 consecutive Days; or
- has not been completed within the established time frame, or an extended time frame approved by the Mortgagee.

If the Mortgagee considers the Mortgage to be in default for failure to start or complete work, and the Mortgage is not in payment default, the Mortgagee must apply any unused rehabilitation funds toward the principal amount.

xviii. Rehabilitation Escrow Account

When the Mortgage closes, the Mortgagee must place all proceeds designated for the rehabilitation, including the Contingency Reserve, inspection fees and any Mortgage Payments, in an interest-bearing escrow account.

- The Mortgagee must pay the net income earned by the rehabilitation escrow account to the Borrower through an agreed upon method of payment.
- The Mortgagee may allow net income to accumulate and be paid in one lump sum after completion of the rehabilitation.
- The Mortgagee that is the custodian of the repair escrow funds is responsible for ensuring all funds from the escrow account are properly distributed.

(A) Accounting of 203(k) Rehabilitation Funds

The Mortgagee must utilize an accounting system that records all transactions from the rehabilitation escrow account and which documents the amount escrowed for each of these categories:

- repairs
- Contingency Reserve
- inspection fees
- title update fees
- Mortgage Payments
- other fees (i.e., architectural and engineering fees, Consultant fees, permits, supplemental origination fee and Discount Points on repair costs)

The accounting system must provide:

- the Borrower's name and property address
- the FHA case number
- the Closing Date
- the scheduled completion date
- the amount of funds in the rehabilitation escrow account
- the interest rate provided on the escrow account

For each draw on the escrow account, the accounting system must record:

- a list of Disbursements
- the number of Days in escrow
- the amount of money in the account
- the interest earned for the applicable time period
- the balance of interest remaining in the account

(B) Project Management

Mortgagees must ensure work is completed on schedule and workmanship is acceptable.

When notified of an issue, Mortgagees must intercede in disagreements among Borrowers, contractors, or Consultants.

(1) Health and Safety

The Mortgagee must ensure that all health and safety items not in the original Work Write-Up or work plan that are discovered during the rehabilitation period are addressed by completion of a change order.

(2) Change Order Request

The Mortgagee must obtain form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*, from the Consultant or inspector if there are any deviations from the Work Write-Up. The Mortgagee must approve the change order before any work can be done.

(C) Escrow Administration

The Mortgagee is fully responsible for authorizing draw inspections, managing the rehabilitation escrow account, and approving the associated draws from the account.

It is the Mortgagee's responsibility to ensure that any inspections are completed in a quality and timely manner, regardless of who performs the inspections.

(1) Release of Funds

The Mortgagee may release funds only when repairs and improvements per the draw request, whether made by the contractor or Borrower, meet all federal, state, and local laws, codes and ordinances, including any required permits and inspections.

The Mortgagee may release funds for lead-based paint stabilization only when a state- or EPA-certified lead-based paint inspector, certified risk assessor or sampling technician, independent of the firm that performed the stabilization, performs the clearance examination and clearance is obtained.

For an existing Structure moved to a new foundation or a Structure that will be elevated, the Mortgagee must not release mortgage proceeds for the existing Structure on the non-mortgaged Property until the new foundation has been properly inspected and the Structure has been properly placed and secured to the new foundation.

The Mortgagee must obtain Lien Waivers, or equivalent, at the time of any Disbursement of funds to ensure the validity of the first lien on the Property. If all Work Items performed by a contractor have not been completed at the time of draw request, the Mortgagee must obtain a partial conditional Lien Waiver for the Work Items that have been completed for each draw request.

For repairs made by the Borrower under a self-help agreement, the Mortgagee is permitted to release funds for materials only.

When the rehabilitation escrow account includes Mortgage Payment Reserves, the Mortgagee must make monthly Mortgage Payments directly from the interest-bearing reserve account. Once the Property is able to be occupied, application of the Mortgage Payment Reserves will cease. Mortgage Payment Reserves remaining in the reserve account after occupancy of the Property must be used to reduce the mortgage principal.

(a) Draw Request

The Mortgagee must obtain an executed form HUD-9746-A, *Draw Request Section 203(k)*, from the 203(k) Consultant, or from the Borrower when there is no 203(k) Consultant, requesting the release of escrow funds for completed Work Items.

The Mortgagee must review and approve each draw request to ensure that the work for which funds are being requested has been completed satisfactorily and that the form has been properly executed by the Borrower, contractor and Consultant, if any.

The Mortgagee may not approve a draw request for work that is not yet complete.

The Mortgagee may not approve draw requests for materials for work that is not completed, except for:

- materials costs for items prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

(b) Change Orders

Work must be 100 percent complete on each change order item before the release of funds for the Work Items from the rehabilitation escrow account.

(c) Holdbacks

The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the rehabilitation escrow account.

Exception

When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, or equivalent, the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.

(d) Timeliness of Release

The Mortgagee must release funds within five business days after receipt of a properly executed draw request and title update when necessary.

(i) **Standard 203(k) Release of Funds**

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of five draw requests (four intermediate and one final). Each draw may include multiple disbursements. A draw with multiple disbursements counts as one draw.

Contingency Reserve

To allow use of contingency funds for improvements other than health and safety when rehabilitation is incomplete, the Mortgagee must determine that it is unlikely that any health or safety deficiency will be discovered, and that the Mortgage will not exceed 95 percent of the After Improved Value.

When the rehabilitation is complete, the Borrower may use the Contingency Reserve account to fund additional improvements not included in the original Work Write-Up.

The Mortgagee must obtain a change order detailing the additional improvements, including the costs of labor and materials.

The Mortgagee must inform the Borrower in writing of the approval or rejection of the request to use funds from the Contingency Reserve account for additional improvements within five business days.

Method of Payment

The Mortgagee will release escrow funds upon completion of the rehabilitation in compliance with the Work Write-Up.

The Mortgagee must issue checks to both the Borrower and contractors as co-payees, unless the Borrower provides written authorization, at each draw, to issue the check directly to the contractor.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(ii) Limited 203(k) Release of Funds

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of four draw requests per contractor or the Borrower (if acting as the contractor). These consist of the initial draw at closing, no more than two intermediate draws during the rehabilitation process, and release of the final draw.

Each draw may include up to two separate disbursements. A draw with two disbursements counts as one draw.

Total Repair Costs Less Than or Equal to $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed Borrower's Letter of Completion. The Mortgagee is not required to perform or have others perform inspections of the completed work.

The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation. If the Mortgagee determines that an inspection by a third party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Total Repair Costs Exceeding $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by performing an inspection or by obtaining an inspection by a third party to determine that the repairs have been satisfactorily completed. The Mortgagee must obtain a signed Borrower's Letter of Completion.

Contingency Reserve

The Mortgagee must ensure funds escrowed in the Contingency Reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

Method of Payment

The Mortgagee will release rehabilitation escrow funds upon completion of the rehabilitation in compliance with the work plan.

The Mortgagee may issue checks solely to the contractor, or issue checks to the Borrower and the contractor as co-payees.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(2) Final Escrow Closeout

The Mortgagee must include the interest earned in the final payment on the rehabilitation escrow account and may include the total of all Holdbacks. However, if it is required to protect the priority of the security instrument, the Mortgagee may retain the holdback for a period not to exceed 35 Days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state Lien Waiver laws or other state requirements.

(a) Standard

(i) Standard 203(k)

Before final release of rehabilitation escrow funds, the Mortgagee must approve the final inspection and draw request signed by the Consultant, contractor, and Borrower.

(ii) Limited 203(k)

Before a final release is made to any contractor, the Mortgagee must determine that all work by the contractor has been completed, is acceptable by the Borrower, and all necessary inspections have been made with acceptable documentation.

(b) Required Documentation for Both Standard 203(k) and Limited 203(k)

The Mortgagee must:

- obtain the Borrower's Letter of Completion signed by the Borrower indicating satisfaction with the completed work and requesting a final inspection and final release of funds;
- obtain a CO, or equivalent, if required by the local jurisdiction;
- obtain all inspections required by the local jurisdiction;
- complete the Final Release Notice authorizing the final payment;
- provide the Mortgagee's extension approval if applicable; and
- obtain a release of any and all liens arising out of the contract or submission of receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.

(3) Contingency Release

The Mortgagee must inform the Borrower of its approval or rejection of the Borrower's request for funds to be made available from the Contingency Reserve account for the purpose of improvements.

A Borrower who established the Contingency Funds with their own funds may receive a refund of their funds, or may request the remaining funds be applied toward the principal balance.

For Standard 203(k), the Mortgagee must either make funds available for additional improvements or apply the funds toward the principal balance if the Contingency Reserve was financed.

For Limited 203(k), the Mortgagee must apply the funds toward the principal balance if the Contingency Reserve was financed.

(4) Mortgage Payment Reserve

Mortgage Payment Reserves remaining in the reserve account after the Final Release Notice is issued must be used to reduce the mortgage principal.

(5) Escrow Closeout Certification

(a) Standard

After the rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

(b) Required Documentation

The Mortgagee must certify that the following documents were reviewed and verified for accuracy:

- Final Release Notice
- Borrower's Letter of Completion
- title update/Lien Waivers
- draw request forms and inspection reports
- change orders
- Mortgagee accounting of the rehabilitation escrow account and payment ledgers
- contingency release letters

xix. Quality Control

HUD will hold Mortgagees and 203(k) Consultants fully accountable for the mortgage proceeds.

Mortgagees must exercise due diligence with regard to the full scope of the 203(k) Consultant's services. Standards for the 203(k) Consultant's performance must be clearly defined in the Mortgagee's Quality Control Plan and should be provided to each Consultant that the Mortgagee relies on in the 203(k) program. Mortgagees must evaluate and document the performance of these Consultants on at least an annual basis, to include a review of the Consultant's actual work product.

xx. Servicing

(A) Delinquencies

If the Mortgage is Delinquent, the Mortgagee may refuse to make further releases from the rehabilitation escrow account. Mortgagees must treat Mortgages in forbearance, where the Borrower is complying with the terms of the forbearance, as not delinquent for the purpose of administering repair escrow.

(B) Payment Default

The project must stop if the Mortgage is in payment Default. The Mortgagee must obtain an inspection of all repairs that have been completed up until this point by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

The inspection obtained by the Mortgagee must also note any items that are required to be completed to protect the interest of the collateral from deteriorating, such as a roof, and health and safety items for a Property that is occupied. The Mortgagee must ensure the completion of any Work Item that the inspection determines is necessary to

protect the occupants and/or the collateral. The Mortgagee may use the services of the mortgagor's contractor, if appropriate, or may engage the services of another qualified contractor to complete the Work Item. The Mortgagee may approve a subsequent release of funds for that Work Item.

The Mortgagee has the option to call the Mortgage due and payable.

If the default is cured, the project may resume.

(C) Bankruptcy

The Mortgagee may not approve further advances if the Borrower declares bankruptcy unless otherwise required by law or as needed to protect FHA's first lien position. The Mortgagee must obtain an inspection of all repairs that have been completed by the 203(k) Consultant for a Standard 203(k) or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

(D) Foreclosure of Mortgage during Rehabilitation Period

In the event of a foreclosure during rehabilitation, the Mortgagee must obtain a final inspection to determine the amount of work that has been completed since the start of construction and the cost for the work.

Using a format similar to the Final Release Notice, the Mortgagee will authorize release of rehabilitation escrow funds for the completed work and holdbacks on any previous Disbursements.

If funds remain in the rehabilitation escrow account, the Mortgagee will reduce the amount of claim (unpaid mortgage principal balance) by the unexpended funds in the rehabilitation escrow account.

The Mortgagee must submit a copy of the Final Release Notice with any insurance claim.

b. Disasters and 203(h) Mortgage Insurance for Disaster Victims (09/14/2015)

i. Definition

Section 203(h) of the National Housing Act authorizes FHA to insure Mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family Property.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) Mortgages provided below, this specific guidance controls.

ii. Eligibility Requirements

(A) Borrower Eligibility

(1) Application Deadline

The FHA case number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided.

(2) Principal Residence

The mortgaged Property must be the Borrower's Principal Residence.

(3) Credit Score

The Borrower must have a minimum credit score of 500.

(B) Property Eligibility

The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary. A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA).

The purchased or reconstructed Property must be a Single Family Property or a unit in an FHA-Approved Condominium Project.

(C) Minimum Required Investment/Maximum Loan-to-Value

The Borrower is not required to make the Minimum Required Investment (MRI). The maximum Loan-to-Value (LTV) ratio limit is 100 percent of the Adjusted Value. If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

(D) Underwriting

The Mortgagee should be as flexible as prudent decision making permits.

The Mortgagee is required to make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. Where traditional documentation is unavailable, the Mortgagee may use alternative documentation as outlined below. Where specific requirements are not provided below, the Mortgagee may use alternative documentation that is reasonable and prudent to rely upon in underwriting a Mortgage.

(1) Credit

For Borrowers with derogatory credit, the Mortgagee may consider the Borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

(2) Income

If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept IRS Form W-2s, *Wage and Tax Statement*, and Tax Returns from the Internal Revenue Service (IRS) to confirm prior employment and income.

The Mortgagee may also include short-term employment obtained following the disaster in the calculation of Effective Income.

(3) Liabilities

When a Borrower is purchasing a new house, the Mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities. To exclude the Mortgage Payments from the liabilities, the Mortgagee must:

- obtain information that the Borrower is working with the servicing Mortgagee to appropriately address their mortgage obligation; and
- apply any property insurance proceeds to the Mortgage of the damaged house.

(4) Assets

If traditional asset documentation is not available, the Mortgagee may use statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the Mortgage.

(5) Housing Payment History

The Mortgagee may disregard any late payments on a previous obligation on a Property that was destroyed or damaged in the disaster where the late payments were a result of the disaster and the Borrower was not three or more months delinquent on their Mortgage at the time of the disaster.

The Mortgagee may justify approval if the Borrower was three or more months delinquent if extenuating circumstances are documented by the Mortgagee.

iii. Eligibility Documentation Requirements

The Mortgagee must document and verify that the Borrower's previous residence was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Documentation attesting to the damage of the previous house must accompany the mortgage application. If purchasing a new house, the house need not be located in the area where the previous house was located.

iv. Refinancing Policy

Refinancing is permitted in conjunction with rehabilitation.

v. Using Section 203(k) with 203(h) for Rehabilitation

Damaged residences located in a PDMDA are eligible for Section 203(k) mortgage insurance regardless of the age of the Property. The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k). All other Section 203(k) policy must be followed.

c. Energy Efficient Mortgages (04/29/2019)

i. Definitions

The Energy Efficient Mortgage (EEM) program allows the Mortgagee to offer financing for cost-effective energy efficient improvements to an existing Property at the time of purchase or refinancing, or for upgrades above the established residential building code for New Construction.

Cost Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.

ii. Eligibility

(A) Eligible Property Types

EEM may be used with:

- New Construction Properties (one- to four-units);
- Existing Construction Properties (one- to four-units);
- condominiums (one unit); or
- Manufactured Housing.

(B) Eligible Programs and Transactions Types

The EEM program can be used in conjunction with any mortgage insurance under Title II, including:

- 203(b)
  - Purchase
  - No cash-out refinance
- 203(h) Mortgage Insurance for Disaster Victims
- 203(k) (Standard and Limited)
- Weatherization policy (Existing Construction only)

iii. Standard

Energy Package

The energy package is the set of improvements agreed to by the Borrower based on recommendations and analysis performed by a qualified home energy rater. The improvements can include energy-saving equipment, and active and passive solar and wind technologies. The energy package can include materials, labor, inspections, and the home energy assessment by a qualified energy rater. If the Borrower desires, labor may include the cost of an EEM Facilitator (project manager).

(A) Cost-Effective Test

The financed portion of an energy package must be cost effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements.

(B) Cost-Effective Test for New Construction

For New Construction, the financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following:

- the latest energy code standard that has been adopted by HUD through a Federal Register notice; or
- the applicable IECC year used by the state or local building code for New Construction.

More information on this energy code can be obtained from the Department of Energy or the International Code Council.

(C) Changes to the Energy Package after Mortgage Closing

If the work that is done differs from the approved energy package, a change order along with a revised home energy audit must be submitted to the Direct Endorsement (DE) underwriter for approval. If the changes still meet the cost-effective test, no further analysis is required. If not, the funds for the work not included in the approval energy package must be used to pay down the mortgage principal.

iv. Home Energy Report/Assessment

The Borrower must obtain a home energy assessment. The purpose of the energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and their cost effectiveness. The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols and procedure.

(A) Qualifications of Energy Raters/Assessors

Qualified home energy raters/assessors must be trained and certified as one of the following:

- Building Performance Institute Building Analyst Professional;
- Building Performance Institute Home Energy Professional Energy Auditor;
- Residential Energy Services Network Home Energy Rater; or
- energy rater, assessor or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure and insurance requirements.

The home energy report must reflect one of the above professional credentials by the rater/assessor.

(B) Home Energy Report

The home energy report reflects recommendations of energy-saving improvements for the Borrower's consideration. Included with the recommendations are estimates of energy savings and cost-effective analysis for each of the suggested improvements. These estimates consider energy costs in today's dollars (present value). The Mortgagee must use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package.

(C) Home Energy Report for New Construction

On newly constructed housing, the home energy report must identify improvements that are over and above the greater of the following:

- the requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice; or
- the applicable IECC year used by the state or local building code for New Construction.

(D) Required Documentation

The Mortgagee must obtain a copy of the home energy report. This report must not be greater than 120 Days old.

The Mortgagee must submit two forms HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*, as described in the Underwriting Section below.

v. Maximum Financeable Energy Package

The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of:

- the dollar amount of a cost-effective energy package as determined by the home energy audit; or
- the lesser of 5 percent of:
  - the Adjusted Value;
  - 115 percent of the median area price of a Single Family dwelling; or
  - 150 percent of the national conforming mortgage limit.

Energy Efficient Mortgage Calculator Tool

The Mortgagee must calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in Energy Package. The EEM Calculator, located in FHA Connection (FHAC) on the Case Processing screen, will perform the calculation of Maximum Financeable Energy Package. The EEM Calculator uses data entered for the Mortgage to calculate the maximum energy package.

For a Streamline Refinance, the EEM Calculator uses the appraised value from the initial transaction, contained within FHA Connection records, as the Adjusted Value.

vi. Maximum Mortgage Amount

The maximum final Base Loan Amount is determined by adding the maximum financeable energy package amount to the initial maximum Base Loan Amount. For New Construction, the cost of the financeable energy package must be subtracted from the sales price when computing the Adjusted Value.

When utilizing an EEM in conjunction with a 203(k) or Weatherization, the items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs.

The maximum FHA Nationwide Mortgage Limit for an area may be exceeded by the maximum financeable energy package.

vii. Underwriting

The Mortgagee must calculate the Borrower's debt ratios using the initial Base Loan Amount plus the portion of the Upfront Mortgage Insurance Premium (UFMIP) attributable to the initial Base Loan Amount.

(A) TOTAL Mortgage Scorecard

For purposes of submission to the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, the Mortgagee must utilize the initial Base Loan Amount prior to the addition of the financeable energy package.

If the Mortgagee obtains an Accept or Approve on a mortgage application that does not include the financeable energy package, FHA will recognize the risk rating from TOTAL Mortgage Scorecard and permit the increase to the Mortgage Payment without re-underwriting or rescoring. The Mortgagee must provide a form HUD-92900-LT, without the financeable energy package, showing the qualifying ratios in the case binder. A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. The second form must also be included in the case binder.

The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the Mortgage and the Property to be in compliance with FHA's underwriting instructions.

(B) Manual Underwriting

The Mortgagee must provide a form HUD-92900-LT, without the financeable energy package, showing the qualifying ratios in the case binder. A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that

includes the financeable energy package, as reflected in FHAC. The second form must also be included in the case binder.

The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the Mortgage and the Property to be in compliance with FHA's underwriting instructions.

viii. Appraisals

For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the Property. If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.

On the 203(k) program, the After Improved Value is to be used for the EEM process.

ix. Cash-Out

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal Mortgage balance.

x. Energy Efficient Mortgage Escrows

For all Mortgages on existing Properties, except 203(k), if the energy package items are not complete by the time of closing, the Mortgagee must establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements.

(A) 203(k)

If the energy package is part of a Section 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the rehabilitation escrow account.

(B) Borrower Labor

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

(C) Form HUD-92300, *Mortgagee's Assurance of Completion*

When funds to complete the energy package are escrowed, the Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for the energy package improvements has been established.

xi. Completion Requirements for Energy Efficient Mortgages

With the exception of 203(k), the energy package is to be installed within 90 Days of the mortgage Disbursement. If the work is not completed within 90 Days, the Mortgagee must apply the EEM funds to a prepayment of the mortgage principal.

For 203(k) Mortgages, the Mortgagee must follow the 203(k) escrow guidance.

xii. Inspection

The Mortgagee, the rater, or an International Code Council (ICC) Residential Combination Inspector (RCI) or Combination Inspector (CI) may inspect the installation of the improvements. The Borrower may be charged an inspection fee.

d. Refinances (11/10/2026)

i. Overview

(A) Definition

A Refinance Transaction is used to pay off the existing debt or to withdraw equity from the Property with the proceeds of a new Mortgage for a Borrower with legal title to the subject Property.

(B) Types of Refinances

(1) Cash-Out

A Cash-Out Refinance is a refinance of any Mortgage or a withdrawal of equity where no Mortgage currently exists, in which the mortgage proceeds are not limited to specific purposes.

(2) No Cash-Out

A No Cash-Out Refinance is a refinance of any Mortgage in which the mortgage proceeds are limited to the purpose of extinguishing the existing debt and costs associated with the transaction. FHA offers three types of no cash-out refinances:

(a) Rate and Term

Rate and Term refers to a no cash-out refinance of any Mortgage in which all proceeds are used to pay existing mortgage liens on the subject Property and costs associated with the transaction.

(b) Simple Refinance

Simple Refinance refers to a no cash-out refinance of an existing FHA-insured Mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject Property and costs associated with the transaction.

(c) Streamline Refinance

Streamline Refinance refers to the refinance of an existing FHA-insured Mortgage requiring limited Borrower credit documentation and underwriting. There are two different streamline options available.

(i) **Credit Qualifying**

The Mortgagee must perform a credit and capacity analysis of the Borrower, but no appraisal is required.

(ii) Non-credit Qualifying

The Mortgagee does not need to perform credit or capacity analysis or obtain an appraisal.

(3) Refinances for the Purpose of Rehabilitation or Repair

A Borrower may refinance existing debts and obtain additional financing for purposes of rehabilitation and repair. Refer to 203(k) Rehabilitation Mortgage Insurance Program for guidelines for refinances under FHA's Section 203(k) program.

(4) Refinancing of an Existing Section 235 Mortgage

An existing Section 235 Mortgage may be refinanced as any no cash-out refinance.

In refinancing a Section 235 Mortgage, the Mortgagee is required to repay to FHA any amount of excess subsidy. The outstanding principal balance on a Section 235 is calculated by adding back to the balance any amount of the excess subsidy paid to FHA.

If FHA has a junior lien that was part of the original Section 235 financing, FHA will subordinate the junior lien to the Section 203(b) Mortgage that refinances the Section 235 Mortgage.

ii. General Eligibility

(A) FHA-Insured to FHA-Insured Refinances

FHA-insured to FHA-insured (FHA-to-FHA) refinances may be used with any refinance type. The Mortgagee must obtain a Refinance Authorization Number from FHA Connection (FHAC) for all FHA-to-FHA refinances.

FHA will not issue a new case number for any FHA to FHA Refinance where the existing Mortgage to be paid off has a repair or rehabilitation escrow account that the Escrow Closeout Certification has not been completed in FHAC.

(B) General Borrower Eligibility

At least one Borrower on the refinancing Mortgage must hold title to the Property being refinanced prior to case number assignment.

(C) General Mortgage Eligibility

(1) Standard

The Mortgagee must not approve any Mortgage that refinances or otherwise replaces a Mortgage that has been subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state.

(2) Required Documentation

If the Mortgage to be insured is located in an area where a state, municipality, or other political subdivision has exercised eminent domain condemnation or seizure of a Mortgage, the Mortgagee must obtain a certification from the Borrower stating the Mortgage being refinanced was not subject to eminent domain condemnation or seizure.

iii. Temporary Interest Rate Buydowns

Temporary interest rate buydowns are not permitted with refinance transactions.

iv. Upfront Mortgage Insurance Premium Refunds

If the Borrower is refinancing their current FHA-insured Mortgage to another FHA-insured Mortgage within 3 years, a refund credit is applied to reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced Mortgage, according to the refund schedule shown in the table below:

Upfront Mortgage Insurance Premium Refund Percentages												
	Month of Year											
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	80	78	76	74	72	70	68	66	64	62	60	58
2	56	54	52	50	48	46	44	42	40	38	36	34
3	32	30	28	26	24	22	20	18	16	14	12	10

v. Cash-Out Refinances

(A) Borrower Eligibility

Nonprofit agencies, state and local government agencies and Instrumentalities of Government are not eligible for cash-out refinances. Income from a non-occupant co-Borrower may not be used to qualify for a cash-out refinance.

If the subject Property is a one-unit with an Accessory Dwelling Unit (ADU), rental income from the ADU cannot be used as Effective Income to qualify for a cash-out refinance.

Mortgagees must apply this requirement for both Mortgages underwritten through TOTAL Scorecard and manual underwriting.

(1) Occupancy Requirements

(a) Standard

Cash-out refinance transactions are only permitted on owner-occupied Principal Residences.

The Property securing the cash-out refinance must have been owned and occupied by at least one Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.

If the Property is a Manufactured Home, it must have been permanently installed on a site for more than 12 months prior to case number assignment.

Exception

In the case of inheritance, a Borrower is not required to occupy the Property for a minimum period of time before applying for a cash-out refinance, provided the Borrower has not treated the subject Property as an Investment Property at any point since inheritance of the Property. If the Borrower rents the Property following inheritance, the Borrower is not eligible for cash-out refinance until the Borrower has occupied the Property as a Principal Residence for at least 12 months.

(b) Required Documentation

The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject Property as their Principal Residence for the 12 months prior to case number assignment.

(2) Payment History Requirements

(a) Standard

For both Mortgages underwritten through TOTAL Scorecard and manually underwritten Mortgages, the Mortgagee must document that the Borrower has made all payments for all their Mortgages within the month due for the previous 12 months or since the Borrower obtained the Mortgages, whichever is less.

Additionally, the payments for all Mortgages secured by the subject Property must have been paid within the month due for the month prior to mortgage Disbursement.

Subject Properties with Mortgages must have a minimum of six months of Mortgage Payments on the current loan. Properties owned free and clear may be refinanced as cash-out transactions.

A Borrower who was granted mortgage payment forbearance must have:

- completed the Forbearance Plan on the subject Property; and
- made at least 12 consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

(b) Required Documentation [Text was deleted in this section.]

If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

(B) Maximum Mortgage Amounts

(1) Standard

(a) Maximum Loan-to-Value

The maximum LTV is 80 percent of the Adjusted Value.

(b) Maximum Combined Loan-to-Value

The maximum CLTV is 80 percent of the Adjusted Value.

(c) Nationwide Mortgage Limit

The combined mortgage amount of the first Mortgage and any subordinate liens cannot exceed the Nationwide Mortgage Limit described in National Housing Act's Statutory Limits.

(2) Required Documentation

The Mortgagee must obtain the payoff statement for all existing Mortgages.

vi. No Cash-Out Refinances

(A) Rate and Term

(1) Borrower Eligibility

(a) Occupancy Requirements

(i) **Standard**

Rate and Term refinance transactions are only permitted on owner-occupied Principal Residences and HUD-approved Secondary Residences.

(ii) **Required Documentation**

The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property and determine the length of time the Borrower has occupied the subject Property as their Principal Residence.

(b) Payment History Requirements (Manually Underwritten)

(i) **Standard**

For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For all mortgages on all properties with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages.

A Borrower who was granted mortgage payment forbearance must have:

- completed the Forbearance Plan on the subject Property; and
- made at least three consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to Mortgage Disbursement.

(ii) **Required Documentation [Text was deleted in this section.]**

If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must

obtain a verification of Mortgage, bank statements, or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Where a mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and dates of payments during the forbearance term.

(2) Maximum Mortgage Amount

(a) Maximum Loan-to-Value Ratio

The maximum LTV for a Rate and Term refinance is:

- 97.75 percent for Principal Residences that have been owner-occupied for the previous 12 months, or owner-occupied since acquisition if acquired within 12 months, at case number assignment;
- 85 percent for a Borrower who has occupied the subject Property as their Principal Residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the Property for that entire period of ownership; or
- 85 percent for all HUD-approved Secondary Residences.

(b) Calculating Maximum Mortgage Amount

(i) Standard

The maximum mortgage amount for a Rate and Term refinance is:

- the lesser of:
  - the Nationwide Mortgage Limit;
  - the maximum LTV based on the Maximum LTV Ratio from above; or
  - the sum of existing debt and costs associated with the transaction as follows:
    - existing debt includes:
      - the unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
      - the unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
      - the unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12

months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
- ex-spouse or co-Borrower equity, as described in "Refinancing to Buy Out Title-Holder Equity" below;
- interest due on the existing Mortgage(s);
- the unpaid principal balance of any unpaid PACE obligation;
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages;

  - allowed costs include all Borrower-paid costs associated with the new Mortgage; and
  - any Borrower-paid repairs required by the appraisal;
- less any refund of the Upfront Mortgage Insurance Premium (UFMIP).

Short Payoffs

The Mortgagee may approve a Rate and Term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt, provided the existing Note holder writes off the amount of the indebtedness that cannot be refinanced into the new FHA-insured Mortgage.

Refinancing to Buy Out Title-Holder Equity

When the purpose of the new Mortgage is to refinance an existing Mortgage to buy out an existing title holder's equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation. The Mortgagee must obtain the divorce decree, settlement agreement, or other legally enforceable equity agreement to document the equity awarded to the title holder.

Refinancing to Pay off Recorded Land Contracts

When the purpose of the new Mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance will be deemed to be the outstanding balance on the recorded land contract.

Use of Estimates in Calculating Maximum Mortgage Amount

The Mortgagee may utilize estimates of existing debts and costs in calculating the maximum mortgage amount to the extent that the actual debts and costs do not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.

Cash to the Borrower resulting from the refund of Borrowers' unused escrow balance from the previous Mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage Disbursement.

Excess Cash Back

When the estimated costs utilized in calculating the maximum mortgage amount result in greater than $500 cash back to the Borrower at mortgage Disbursement, Mortgagees may reduce the Borrower's principal balance on the subject loan to satisfy the $500 cash back requirement. The Mortgagee must submit the Mortgage for endorsement at the reduced principal amount.

***(ii)* Required Documentation**

The Mortgagee must obtain the payoff statement on all existing Mortgages.

(c) Maximum Combined Loan-to-Value Ratio

The maximum CLTV ratio for a Rate and Term refinance is 97.75 percent. For open-end line of credit, the Mortgagee must utilize the maximum accessible credit limit of the subordinate lien to calculate the CLTV ratio.

(3) Refinance of HOPE for Homeowners Mortgages

If the Mortgage being refinanced is a HOPE for Homeowners Mortgage, the Mortgagee must refer to the requirements in the HOPE for Homeowners servicing section.

(B) Simple Refinance

(1) Borrower Eligibility

(a) Occupancy Requirements

***(i)* Standard**

Simple Refinance is only permissible for owner-occupied Principal or HUD-approved Secondary Residences.

(ii) Required Documentation

The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property as their Principal Residence.

The Mortgagee must obtain evidence that the Secondary Residence has been approved by FHA.

(b) Payment History Requirements (Manually Underwritten)

(i) Standard

For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For all mortgages on all properties with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages.

A Borrower who was granted mortgage payment forbearance must have:

- completed the Forbearance Plan on the subject Property; and
- made at least three consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to Mortgage Disbursement.

(ii) Required Documentation **[Text was deleted in this section.]**

If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements, or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

(2) Maximum Mortgage Amount

(a) Maximum Loan-to-Value

The maximum LTV ratio for a Simple Refinance is:

- 97.75 percent for Principal Residences; and
- 85 percent for HUD-approved Secondary Residences.

(b) Maximum Combination Loan-to-Value

The maximum CLTV for a Simple Refinance is:

- 97.75 percent for Principal Residences; and
- 85 percent for HUD-approved Secondary Residences.

(3) Calculating Maximum Mortgage Amount for Simple Refinance Transactions

(a) Standard

The maximum mortgage amount for a Simple Refinance is:

- the lesser of:
  - the Nationwide Mortgage Limit;
  - the maximum LTV ratio from above; or
  - the sum of existing debt and costs associated with the transaction as follows:
    - existing debt includes:
      - unpaid principal balance of the FHA-insured first Mortgage as of the month prior to mortgage Disbursement;
      - interest due on the existing Mortgage;
      - the unpaid principal balance of any PACE obligation;
      - MIP due on existing Mortgage;
      - late charges; and
      - escrow shortages;
    - allowed costs include all Borrower-paid costs associated with the new Mortgage; and
    - Borrower-paid repairs required by the appraisal;
- less any refund of UFMIP.

(b) Use of Estimates in Calculating Maximum Mortgage Amount

The Mortgagee may utilize estimates of existing debts and costs in calculating the maximum mortgage amount to the extent that the actual debts and costs do not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.

Cash to the Borrower resulting from the refund of Borrower's unused escrow balance from the previous Mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage Disbursement.

(c) Excess Cash Back

When the estimated costs utilized in calculating the maximum mortgage amount resulted in greater than $500 cash back to the Borrower at mortgage Disbursement, Mortgagees may reduce the Borrower's principal balance on the subject loan to satisfy the $500 cash back requirement.

(d) Required Documentation

The Mortgagee must obtain the payoff statement for the existing Mortgage being refinanced.

(4) Upfront and Annual Mortgage Insurance Premium

See Appendix 1.0 – Mortgage Insurance Premiums for assessing upfront and annual MIP.

(C) Streamline Refinances

Streamline Refinance may be used when the proceeds of the Mortgage are used to extinguish an existing FHA-insured first mortgage lien. Mortgagees must manually underwrite all Streamline Refinances in accordance with the guidance provided in this section.

(1) Streamline Refinance Exemptions

(a) Non-credit Qualifying Exemptions

Unless otherwise stated in this section, the following sections of Origination through Post-closing/Endorsement do not apply to non-credit qualifying Streamline Refinances:

- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Borrower Minimum Decision Credit Score
- Borrower and Co-Borrower Ownership and Obligation Requirements
- Co-signer Requirements
- Principal Residence in the United States
- Military Personnel Eligibility
- Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
- Delinquent Federal Tax Debt

- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- LTV Limitations Based on Borrower's Credit Score
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard
- Credit Requirements (Manual)
- Income Requirements (Manual)
- Asset Requirements (Manual)
- Underwriting of Credit and Debt (Manual)
- Underwriting of Income (Manual)
- Underwriting of Assets (Manual)
- Calculating Qualifying Ratios (Manual)
- Approvable Ratio Requirements (Manual)
- Documenting Acceptable Compensating Factors (Manual)

(b) Credit Qualifying Exemptions

The following sections of Origination through Post-closing/Endorsement do not apply to credit qualifying Streamline Refinances:

- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
- Delinquent Federal Tax Debt
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- LTV Limitations Based on Borrower's Credit Score
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard

(2) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Streamline Refinances may be used for Principal Residences, HUD-approved Secondary Residences, or non-owner occupied Properties.

(ii) Required Documentation

The Mortgagee must review one of the following to evidence that the Borrower currently occupies the Property as their Principal Residence:

- Borrower's employment documentation;
- utility bills; or
- direct electronic verification by a Third Party Verification (TPV) vendor verifying the Borrower's address is the same as that of the subject Property.

The Mortgagee must obtain evidence that the Secondary Residence has been approved by FHA.

The Mortgagee must process the Streamline Refinance as a non-owner occupied Property if the Mortgagee cannot obtain evidence that the Borrower occupies the Property either as a Principal or Secondary Residence.

(b) Payment History Requirements

(i) Standard

Non-credit Qualifying

The Borrower must have made all Mortgage Payments for all Mortgages on the subject Property within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all Mortgages on the subject Property. The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement.

A Borrower who was granted mortgage payment forbearance on the subject Property is eligible for a non-credit qualifying Streamline Refinance and considered to have acceptable Mortgage Payment history provided that, at the time of case number assignment, the Borrower has:

- completed the Forbearance Plan on the subject Property; and
- made at least three consecutive monthly Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

Credit Qualifying

For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For all mortgages on all properties with greater than six months of Mortgage Payment history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months.

The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement.

A Borrower who is still in mortgage payment forbearance at the time of case number assignment, or has made less than three consecutive monthly Mortgage Payments within the month due since completing the Forbearance Plan, is eligible for a credit qualifying Streamline Refinance provided the Borrower:

- made all Mortgage Payments within the month due for the six months prior to forbearance; and
- had no more than one 30-Day late payment for the previous six months.

***(ii)* Required Documentation [Text was deleted in this section.]**

If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements, or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the Modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the agreement term.

(3) Non-owner Occupied Properties and HUD-Approved Secondary Residences

Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.

(4) General Information Applicable to All Streamline Refinances [Text was deleted in this section.]

(a) Mortgage Seasoning Requirements

On the date of the FHA case number assignment:

- the Borrower must have made at least six payments on the FHA-insured Mortgage that is being refinanced (where the FHA-insured Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement);
- at least six full months must have passed since the first payment due date of the Mortgage that is being refinanced;
- at least 210 Days must have passed from the Closing Date of the Mortgage that is being refinanced; and
- if the Borrower assumed the Mortgage that is being refinanced, they must have made six payments since the time of assumption.

(b) Use of TOTAL Mortgage Scorecard on Streamline Refinances

The Mortgagee must manually underwrite all Streamline Refinances. The Mortgagee may score the Mortgage through TOTAL Mortgage Scorecard but the findings are invalid.

(c) Net Tangible Benefit of Streamline Refinances

(i) Definitions

A Net Tangible Benefit is a reduced Combined Rate, a change from an ARM to a fixed rate Mortgage, and/or a reduced term that results in a financial benefit to the Borrower.

Combined Rate refers to the interest rate on the Mortgage plus the Mortgage Insurance Premium (MIP) rate.

Reduction in Term refers to the reduction of the remaining amortization period of the existing Mortgage.

(ii) Standard for Refinances without a Term Reduction or with a Term Reduction of Less Than Three Years

The Mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions without a reduction in term or with a reduction in term of less than three years.

	To		
From	**Fixed Rate New Combined Rate**	**One-Year ARM New Combined Rate**	**Hybrid ARM New Combined Rate**
Fixed Rate	At least 0.5 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.

From	To		
	Fixed Rate New Combined Rate	**One-Year ARM New Combined Rate**	**Hybrid ARM New Combined Rate**
Any ARM With Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.

(iii) Standard for Refinances with a Term Reduction of Three Years or More

The Mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions with a reduction in term of three years or more.

Additionally, the combined principal, interest, and MIP payment of the new Mortgage must not exceed the combined principal, interest, and MIP payment of the refinanced Mortgage by more than $50.

From	To		
	Fixed Rate New Combined Rate	**One-Year ARM New Combined Rate**	**Hybrid ARM New Combined Rate**
Fixed Rate	Below the prior Combined Rate.	N/A	N/A
Any ARM With Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	N/A	N/A
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	N/A	N/A

(d) Reviewing Limited Denial Participation and SAM Exclusion Lists

The Mortgagee must check the HUD Limited Denial of Participation (LDP) List to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

The Mortgagee must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(e) Borrower Additions to Title

Individuals may be added to the title and Mortgage on a non-credit qualifying Streamline Refinance without a creditworthiness review.

(f) Borrower Credit Reports

FHA does not require a credit report on the non-credit qualifying Streamline Refinance. The Mortgagee must obtain a credit report for the credit qualifying Streamline Refinance.

If the Mortgagee obtains a credit score, the Mortgagee must enter it into FHAC. If more than one credit score is obtained, the Mortgagee must enter all available credit scores into FHAC.

(g) Funds to Close

If the funds to close exceed the total Mortgage Payment of the new Mortgage, the Mortgagee must verify the full amount of the Borrower's funds to close in accordance with Sources of Funds.

Additionally, the Mortgagee may provide an unsecured interest-free loan to establish a new escrow account in an amount not to exceed the present escrow balance on the existing Mortgage.

(h) Maximum Mortgage Amortization Period

The maximum amortization period of a Streamline Refinance is limited to the lesser of:

- the remaining amortization period of the existing Mortgage plus 12 years; or
- 30 years.

(i) Maximum Mortgage Calculation for Streamline Refinances

(i) Standard

For owner-occupied Principal Residences and HUD-approved Secondary Residences, the maximum Base Loan Amount for Streamline Refinances is:

- the lesser of:
  - the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus:

        - interest due on the existing Mortgage;
        - Late Charges;
        - escrow shortages; and
        - MIP due on existing Mortgage; or
      - the original principal balance of the existing Mortgage (including financed UFMIP);
  - less any refund of UFMIP.

For Investment Properties, the maximum Base Loan Amount for Streamline Refinances is:

- the lesser of:
  - the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; or
  - the original principal balance of the existing Mortgage (including financed UFMIP);
- less any refund of UFMIP.

Use of Estimates in Calculating Maximum Mortgage Amount

The Mortgagee may utilize estimates in calculating the maximum mortgage amount to the extent that the total mortgage amount does not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.

Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous Mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage Disbursement.

Excess Cash Back

When the estimates utilized in calculating the maximum mortgage amount resulted in greater than $500 cash back to the Borrower at mortgage Disbursement, Mortgagees may reduce the Borrower's principal balance on the subject loan to satisfy the $500 cash back requirement.

(ii) **Required Documentation**

The Mortgagee must obtain the payoff statement on the existing Mortgage.

(j) Maximum Combination Loan-to-Value Ratio and Subordinate Financing

Existing subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance. New

subordinate financing is permitted only where the proceeds of the subordinate financing are used to:

- reduce the principal amount of the existing FHA-insured Mortgage; or
- finance the origination fees, other closing costs, prepaid items, or Discount Points associated with the refinance.

There is no maximum CLTV.

Mortgagees must contact the FHA Resource Center at answers@hud.gov for processing of any HUD-held lien subordination.

(k) Appraisal and Inspection Requirements on Streamline Refinances

Appraisals are not required on Streamline Refinances. The receipt or possession of an appraisal by the Mortgagee does not affect the eligibility or maximum mortgage amount on Streamline Refinances.

(l) Assessing Upfront and Annual MIP

See Appendix 1.0 – Mortgage Insurance Premiums for assessing upfront and annual MIP.

For the purpose of calculating the MIP, FHA uses the original value of the Property to calculate the LTV.

(m)HOPE for Homeowners Mortgages

HOPE for Homeowners Mortgages may not be refinanced using the FHA streamline process.

(5) Streamline Refinance Non-credit Qualifying

(a) Borrower Eligibility

A Borrower is eligible for a Streamline Refinance without credit qualification if all Borrowers on the existing Mortgage remain as Borrowers on the new Mortgage. Mortgages that have been assumed are eligible provided the previous Borrower was released from liability.

Exception

A Borrower on the Mortgage to be paid may be removed from title and new Mortgage in cases of divorce, legal separation or death when:

- the divorce decree or legal separation agreement awarded the Property and responsibility for payment to the remaining Borrower, if applicable; and

- the remaining Borrower can demonstrate that they have made the Mortgage Payments for a minimum of six months prior to case number assignment.

(b) Special Documentation and Procedures for Non-credit Qualifying Streamline Refinances

Mortgagees may use an abbreviated Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*), on non-credit qualifying Streamline Refinances only. For non-credit qualifying Streamline Refinances, Mortgagees are not required to complete Sections 1b-1e, 2, 3, or 5, with the exception of 5a.A (Occupancy), which must be answered.

(6) Streamline Refinance Credit Qualifying

(a) Borrower Eligibility

At least one Borrower from the existing Mortgage must remain as a Borrower on the new Mortgage.

(b) Credit Underwriting

In addition to the requirements in this section, credit qualifying Streamline Refinances must meet all requirements of manual underwriting, except for any requirements for Appraisals or LTV Calculations.

e. RESERVED FOR FUTURE USE

RESERVED FOR FUTURE USE

Previous content from this section is deleted and this section is reserved for future use.

f. Section 251 Adjustable Rate Mortgages (05/02/2023)

i. Definition

An Adjustable Rate Mortgage (ARM) refers to a Mortgage in which the interest rate can change annually based on an index plus a margin.

ii. Required Disclosures

The Borrower must sign a disclosure that explains the terms of the ARM at mortgage application.

iii. ARM Types

The Mortgagee must establish the initial interest rate and the margin. The margin must be constant for the entire term of the Mortgage.

The interest rate must remain constant for an initial period of 1, 3, 5, 7, or 10 years, depending on the ARM program chosen by the Borrower, and then may change annually for the remainder of the mortgage term.

A 1- and 3-year ARM may increase by one percentage point annually after the initial fixed interest rate period, and five percentage points over the life of the Mortgage.

A 5-year ARM may either allow for increases of one percentage point annually, and five percentage points over the life of the Mortgage; or increases of two percentage points annually, and six points over the life of the Mortgage.

A 7- and 10-year ARM may only increase by two percentage points annually after the initial fixed interest rate period, and six percentage points over the life of the Mortgage.

iv. Initial Interest Rate Adjustments

The first interest rate adjustment must occur in accordance with the following chart:

If the ARM is initially at a fixed interest rate for ...	Then the first adjustment rate change may occur no sooner than ...	And no later than ...
1 year	12 months	18 months.
3 years	36 months	42 months.
5 years	60 months	66 months.
7 years	84 months	90 months.
10 years	120 months	126 months.

v. Indices

The interest rate governing index may be the 1-Year Constant Maturity Treasury (CMT) or 30-day average Secured Overnight Financing Rate (SOFR).

The 1-Year CMT is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year, as published by the Board of Governors of the Federal Reserve System in its statistical release on Selected Interest Rates (H.15) at https://www.federalreserve.gov/releases/h15/default.htm.

The 30-day average SOFR is the compounded average of the SOFR over a rolling 30-day period, as administered and published daily by the Federal Reserve Bank of New York and available at: https://www.newyorkfed.org\markets\reference-rates\sofr-averages-and-index.

vi. Temporary Interest Rate Buydowns

Temporary interest rate buydowns are not permitted with ARM transactions.

vii. Underwriting Requirements

The Mortgagee must underwrite the Mortgage based on payments calculated using the initial interest rate.

1-year ARMs

If the Loan-to-Value (LTV) is 95 percent or more, the Mortgagee must underwrite the Mortgage based on payments calculated using the initial interest rate plus one percent.

If the Mortgage is less than 95 percent, the Mortgagee must underwrite the Mortgage based on payments calculated using the initial interest rate.

viii. Mortgage Term

The ARM must be fully amortizing over a period of no more than 30 years.

ix. Required Documentation

(A) Model Note

The Mortgagee must use the Model ARM Note for all ARMs. Paragraph 1 of this form must be adapted or additional paragraphs may be added to provide a full description of the adjustable rate feature of the Mortgage to the extent required by state or local law to create an enforceable agreement.

The Mortgagee must ensure that the ARM Note contains amortization provisions that allow for annual adjustments in the rate of interest charged.

(B) Mortgage Document

The mortgage documents for an ARM must specify the:

- initial interest rate;
- margin;

- date of the first adjustment to the interest rate; and
- frequency of adjustments.

g. Section 248 Mortgages on Indian Land (09/14/2015)

i. Definitions

A Section 248 Mortgage on Indian Land refers to a purchase or refinance Mortgage covering one- to four-family dwellings on Indian Lands.

Indian Land refers to those lands that are held by or for the benefit of Indian Tribes under some restriction or with some attribute peculiar to the legal status of its owners.

Indian Tribe refers to any Indian or Alaskan native tribe, band, nation, or other organized group or community of Indians or Alaskan natives recognized as eligible for the services provided to Indians or Alaskan natives by the Secretary of Interior because of its status as such an entity, or that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal of this section.

ii. Eligibility

(A) Standard

The Mortgagee must obtain documentation from the Indian/Native American that the Indian Land/reservation has adopted eviction procedures acceptable to HUD.

(B) Required Documentation

The Mortgagee must obtain a certification from the Indian Tribe confirming the Indian Land/reservations compliance with HUD's requirements. The Mortgagee must include the certification in the mortgage file and take the following measures:

- certify to HUD that it has adopted eviction procedures and will enforce them;
- permit HUD access to tribal lands for the purpose of servicing Properties;
- agree to the lease form that HUD prescribes; and
- enact a law that grants the tribal government's court the jurisdiction to hear evictions and foreclosures so that FHA-insured and FHA-held Mortgages can be assured a first lien or provides that the law of the state in which the Property is located determines the priority of liens against the Property. If the reservation spans two or more states, the state in which the Property is located is the applicable state law.

(C) Borrower Eligibility

Only an Indian Tribe or a member of the Indian Tribe may be a Borrower. Where there is a co-Borrower, at least one Borrower must be an Indian Tribe or a member of the Indian Tribe. The Borrower must occupy the Property as their Principal Residence.

(D) Property Eligibility

The Property must be located on land held by the Indian Tribe or held by the United States government for the benefit of the Indian Tribe.

Units in cooperatives are not eligible.

The Borrower must hold a Residential Lease for the Property.

(E) First Lien Status

The Mortgage must be secured by a first lien on the Property that has been filed with the state recording system and with the Bureau of Indian Affairs, U.S. Department of the Interior.

(F) Assumptions

The Mortgagee cannot approve an assumption of a Mortgage secured by a Property located on an Indian Land/reservation unless the Indian Tribe has approved the assumption or sale of the rights to the Property securing the Mortgage. The Mortgagee must comply with all requirements for assumptions.

(G) Lease and Mortgage

The model Lease and model Mortgage Rider must be used in connection with any Section 248 Mortgages. Modifications may be made to the Section 248 rider with FHA approval by emailing the FHA Resource Center at answers@hud.gov with the following subject line: Section 248 Lease Modification.

The term of the lease must be 25 years with a provision for an automatic extension of an additional 25 years.

The lease must prohibit termination by either or both parties while the Leasehold is mortgaged under Section 248.

iii. Underwriting

(A) Tribal Leasehold and Taxes

The Mortgagee must obtain tax information on the Leasehold from the tribe and include the payment of such taxes in the calculation of the Borrower's Mortgage Payment as is done with local property taxes.

(B) Mortgage Insurance Premiums

The Section 248 program does not require an Upfront Mortgage Insurance Premium (UFMIP). Annual premiums are found in Appendix 1.0 – Mortgage Insurance Premiums.

iv. Valuation

The Mortgagee must ensure that the appraisal of the Property meets the requirements specified in the appraisal of Single Family Housing on Indian Lands section of the Appraiser requirements.

h. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (11/07/2023)

i. Definition

FHA insures Mortgages made to Native Hawaiians to purchase or refinance one- to four-family dwellings located on Hawaiian Home Lands, which are owned by the State of Hawaii, Department of Hawaiian Home Lands (DHHL) and leased to Native Hawaiians for 99 year lease terms.

ii. Eligibility Requirements

(A) Borrower Eligibility

(1) Native Hawaiian

A Borrower must be a native Hawaiian who is at least 18 years of age and certified as eligible to hold a Hawaiian Home Lands Lease, or possesses a lease of Hawaiian Home Lands issued under Section 207(a) of the Hawaiian Homes Commission Act, 1920, that has been certified by DHHL as being a valid current lease, and not in default.

Native Hawaiian means a descendant of not less than 50 percent part of the blood of the races inhabiting the Hawaiian Islands before January 1, 1778 (or, in the case of an individual who succeeds a spouse or parent in an interest in a lease of Hawaiian Home Lands, such lower percentage as may be established for such succession under Section 209 of the Hawaiian Homes Commission Act, 1920, or under the corresponding provision of the constitution of the State of Hawaii adopted under Section 4 of the Act entitled, “An Act to provide for the admission of the State of Hawaii into the Union,” approved March 18, 1959). 12 U.S.C. § 1715z-12(d)(1).

(2) Principal Residence

The Property must be the Borrower’s Principal Residence (leased land condominiums and townhomes are allowed).

(3) Co-Borrower

DHHL may be a co-Borrower on the Mortgage.

(B) Mortgaged Property Location

The mortgaged Property must be located within the Hawaiian Home Lands covered under a homestead lease issued under Section 207(a) of Hawaiian Homes Commission Act, 1920, or under the corresponding provision of the Constitution of

the State of Hawaii adopted under Section 4 of the Act entitled "An Act to provide for the admission of the State of Hawaii into the Union," approved March 18, 1959 (73 Stat. 5).

iii. Required Documentation

(A) Certificate of Eligibility

Certificates of Eligibility are issued by DHHL and certify that the Borrower possesses a homestead lease in good standing (not canceled or in default).

The Mortgagee must verify and obtain documentation that the Borrower has a Certificate of Eligibility for an existing Hawaiian Home Lands lease issued by DHHL, or possesses a lease of Hawaiian Home Lands issued under Section 207(a) of the Hawaiian Homes Commission Act, 1920 (42 Stat. 110).

Obtaining a Certificate of Eligibility

To obtain a Certificate of Eligibility, the Mortgagee must submit a Request for Certification of Eligibility form to the DHHL. DHHL will issue the Certification of Eligibility to the Mortgagee.

(B) Copy of Homestead Lease

The Mortgagee must obtain a recorded copy of either (1) the original homestead lease issued by DHHL that identifies the proposed Borrower as the lessee; or (2) the original homestead lease plus documentation of the chain of succession or assignment of the homestead lease to the Borrower and DHHL's consent to each and every transfer of the homestead lease. If the lease was issued prior the development of the Hawaii State recording system, the Mortgagee must provide written confirmation from DHHL or provide other evidence that the lease was validly issued to the lessee.

The Mortgagee must document all amendments to the original homestead lease. All homestead lease documents must bear evidence of having been recorded at the DHHL.

(C) DHHL Mortgage Insurance Program Rider

The Mortgagee must obtain an executed copy of the DHHL Mortgage Insurance Program Rider. The Mortgagee must certify and document that the rider has been recorded in DHHL's recording system.

(D) DHHL Consent to Mortgage

The Mortgagee must obtain a "Consent to Mortgage" executed by the Chairman of the Hawaiian Homes Commission and recorded with DHHL. Mortgagees can obtain

this form by writing to the Department of Hawaiian Home Lands, Attn: Loan Services Branch.

iv. Appraisal

Mortgagees are required to obtain an appraisal for both Existing and New Construction with the cost approach to value developed. The sales comparison and income approaches to value may be excluded when the approaches are not necessary for credible results and the basis of the exclusion is explained.

The following statement may be included on the applicable Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*: "This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions for DHHL Properties." For more information on appraisal requirements, refer to the Appraiser section.

v. Origination

(A) Loan-to-Value Limits for Cash-Out Refinances

The maximum LTV ratio for refinance loans is 75 percent.

The maximum LTV may be increased to 85 percent when the Borrower is paying off an existing Mortgage and all remaining proceeds are used for documented home improvements.

Cash-out refinancing for the purpose of debt consolidation is not allowed.

(B) Mortgage Insurance Premium

The Mortgage Insurance Premium (MIP) payment on a Section 247 Mortgage is a one-time upfront MIP of 380 Basis Points (bps).

Annual or periodic MIPs are not assessed on Section 247 Mortgages.

vi. Underwriting

For refinance transactions, for the purpose of consolidating debt, the Mortgagee must include all debt, including those being paid off through the refinance, when calculating the Borrower's debt ratio.

vii. Closing

(A) Lien Position

The Section 247 Mortgage must give rise to a valid and secured interest in the mortgaged Property. However, the lien is not required to be in first position.

(B) Recordation

The Mortgage must be recorded in DHHL's recording system upon closing of the Mortgage. The documents must **not** be recorded at the State of Hawaii Bureau of Conveyances or filed with the Office of Assistant Registrar of the Land Court. Recordation at either of these offices does not effectuate a lien on the Hawaiian Home Lands lease.

i. New Construction (11/10/2026)

i. Definitions

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

FHA treats the sale of an occupied Property that has been completed less than one year from the issuance of the CO or equivalent as an existing Property.

ii. Eligible Property Types

The following property types are eligible for New Construction financing:

- Site Built Housing (one- unit, one-unit with an Accessory Dwelling Unit (ADU), or two- to four-units)
- Condominium units in Approved Projects or Legal Phases
- Manufactured Housing (one-unit or one-unit with an ADU)

iii. Required Inspections for New Construction Financing

(A) Site Built Housing (By Construction Status at Time of Appraisal)

The Mortgagee must obtain:

(1) Proposed Construction

- copies of the building permit (or equivalent) and CO (or equivalent); or
- three inspections (footing, framing and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI (for Modular Housing, footing and final only); or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain three inspections (footing, framing and final) performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(2) Under Construction

- copies of the building permit (or equivalent) and CO (or equivalent); or

- a final inspection issued by the local authority with jurisdiction over the Property or by an ICC certified RCI or CI; or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(3) Existing Less than One Year

- a copy of the CO (or equivalent); or
- a final inspection issued by the local authority with jurisdiction over the Property or by an ICC certified RCI or CI; or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(B) Manufactured Housing (By Construction Status at Time of Appraisal) Inspection Requirements

The Mortgagee must obtain:

(1) Proposed Construction

- copies of the building permit, (or equivalent) and CO (or equivalent); or
- two inspections (initial and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain two inspections (initial and final) performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(2) Under Construction

- copies of the building permit, (or equivalent) and CO (or equivalent); or
- a final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met

the licensing and bonding requirements of the state in which the Property is located.

(3) Existing Less than One Year

- a copy of the CO (or equivalent); or
- a final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(C) Units in Condominium Project or Legal Phase (Existing Less Than One Year)

The Mortgagee must obtain a CO or its equivalent.

iv. Required Documentation for New Construction Financing

The Mortgagee must obtain and include the following documents in the case binder:

- form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*;
- form HUD-92544, *Warranty of Completion of Construction*;
- required inspections, as applicable:
  - inspections performed by an ICC certified RCI or CI or a third-party, who is a registered architect, a structural engineer, or a qualified tradesperson or contractor must be reported on form HUD-92051, *Compliance Inspection Report*, or on an appropriate state-sanctioned inspection form; and
  - when a third party, who is a registered architect, a structural engineer, or a qualified tradesperson or contractor, is relied upon for required inspections due to the absence of an ICC certified RCI or CI, a certification from such inspector that they are licensed and bonded under applicable state and local laws to perform the type of inspection completed must be included;
- Wood Infestation Report, unless the Property is located in a county listed as not required on HUD's "Termite Treatment Exception Areas" list:
  - Form HUD-NPMA-99-A, *Subterranean Termite Protection Builder's Guarantee,* is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
  - Form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record,* is required when the New Construction Property is treated with one of the following: Termite Bait System, Field Applied Wood Treatment, soil chemical termiticide, or Physical Barrier System is installed, as reflected on

form HUD-NPMA-99-A. The Mortgagee must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.

- local health authority or qualified lab well water analysis; and
- septic report, where required by the local jurisdictional authority.

v. Documents to be Provided to Appraiser at Assignment

The Mortgagee must provide the Appraiser with a fully executed form HUD-92541, signed and dated no more than 30 Days prior to the date the appraisal was ordered.

For Properties 90 percent completed or less, the Mortgagee must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow the Appraiser to determine the size and level of finish of the house they are appraising.

For Properties greater than 90 percent but less than 100 percent completed, the Mortgagee must provide the Appraiser with a list of components to be installed or completed after the date of inspection.

vi. Property Considerations

New Construction must meet HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

vii. Mortgagee Review of Appraisal

(A) Site Considerations

(1) Environmental

The Mortgagee must require corrective work to mitigate any condition that arises during construction that may affect the health and safety of the occupants, the Property's ability to serve as collateral, or the structural soundness of the improvements.

(2) Operating Oil or Gas Wells

If a New Construction dwelling is located within 75 feet of an operating oil or gas well, the Mortgagee must reject the Property unless mitigation measures are completed.

(3) Slush Pits

If a Property is Proposed Construction near an active or abandoned Slush Pit, the Appraiser must require a survey to locate the pit. The Mortgagee is to assess any impact on the subject Property.

(4) Special Airport Hazards

If a New Construction Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the Property for insurance.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

(5) Flood Hazard Areas

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in a Special Flood Hazard Area (SFHA), the Mortgagee must reject the Property, unless the Mortgagee:

- obtains a Federal Emergency Management Agency (FEMA)-issued final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA; or
- obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form FF-206-FY-22-152) that documents that the lowest floor of the residential building, including the basement, and all related Structures or equipment essential to the Property Value are built above the 100-year flood elevation in compliance with the NFIP criteria; and

- ensures that the Elevation Certificate is completed based on finished construction.

The Mortgagee must include the LOMA, LOMR, or FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) with the case when it is submitted for endorsement.

The Mortgagee must ensure that Flood Insurance is obtained when a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) documents that the Property remains located within an SFHA.

(6) Individual Water Supply Systems (Wells)

The Mortgagee must ensure that new wells are drilled and are no less than 20 feet deep and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.

A well located within the foundation walls of New Construction is not acceptable except in arctic or subarctic regions.

(a) Requirements for Well Water Testing

A well water test is required for all newly constructed Properties.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

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

Water Well Location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan, or rock)
8	Dry well/50 feet

Water Well Location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*	
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

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

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or locality. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(7) Shared Well

A Shared Well is permitted if the requirements in Shared Wells are met.

(B) Sales Comparison Approach: Comparable Selection

For Properties in new subdivisions, the selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project.

viii. Completion of Construction

Regardless of the inspection process used, the Mortgagee must certify on form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* that the Property is 100 percent complete and meets HUD's MPR and MPS.

j. Construction to Permanent (09/20/2021)

i. Definition

Construction to Permanent (CP) refers to the construction of a dwelling on land owned or being purchased by the Borrower. The CP program combines the features of a construction loan with that of a traditional long-term permanent residential Mortgage using a single mortgage closing prior to the start of construction.

A construction loan refers to a short-term interim loan for financing the cost of construction.

ii. General Eligibility

The Borrower must have contracted with a builder to construct the dwelling. The builder must be a licensed general contractor.

The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

iii. Property Eligibility

The Borrower must either be purchasing the land at the closing of the construction loan, or already own the land.

iv. Calculating Maximum Mortgage Amount

The Mortgagee must use the lesser of the appraised value or the documented Acquisition Cost to determine the Adjusted Value.

The maximum mortgage amount is calculated using the appropriate purchase Loan-to-Value (LTV) percentage of the lesser of the appraised value or the documented Acquisition Cost.

The documented Acquisition Cost of the Property includes:

- the builder's price (includes cost of land if being purchased from builder), or the sum of all subcontractor bids and materials (if land is already owned by the Borrower);
- Borrower-paid options and construction costs not included in the builder's price to build;
- closing costs associated with any interim financing of the land, and
- either of the following:
  - for land that is not yet purchased or has been owned six months or less at case number assignment, the lesser of the cost of the land or appraised value of the land; or

- for land that has been owned for more than six months at case number assignment or was received as an acceptable Gift, the appraised value of the land.

For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs.

v. Minimum Required Investment

(A) Standard

The Borrower may utilize any cash investment in the Acquisition Cost of the Property or land equity to satisfy the Minimum Required Investment (MRI) in accordance with Calculating Maximum Mortgage Amount.

(B) Required Documentation

The Mortgagee must document the cash investment was from an acceptable source of funds in accordance with TOTAL or manual underwriting requirements as applicable.

vi. Required Documentation

The Mortgagee must obtain the Closing Disclosure or similar legal document showing the cost of the land and the date of purchase.

The Mortgagee must obtain evidence that the funds used to pay Borrower-paid options were derived from an acceptable source. The Mortgagee must obtain an itemization of the options and expenses, and cost of each item.

If the land was given as a Gift to the Borrower, the Mortgagee must verify that the donor was not a prohibited source.

The Mortgagee must comply with New Construction requirements.

vii. Mortgage Interest Rate

During the construction period, the interest rate may be variable. The Mortgagee and the Borrower must enter into an agreement that:

- documents the range in which the interest rate may float during construction;
- documents the point of interest rate lock-in;
- specifies that the permanent Mortgage will not exceed a specific maximum interest rate; and
- permits the Borrower to lock in at a lower rate, if available and they have not already locked in a rate.

The Mortgagee must qualify the Borrower for the Mortgage at the maximum rate at which the permanent Mortgage may be set.

viii. Required Documentation for Closing

In addition to standard FHA documents, the following documents must be used:

(A) A Construction Rider to the Note, and Construction Loan Agreement. These construction documents may be in any form acceptable to the Mortgagee, but they must provide that all special construction terms end when the construction loan converts to a permanent Mortgage. After conversion, only the permanent mortgage terms (based on standard documents) continue to be effective, making the permanent Mortgage eligible for FHA mortgage insurance.

(B) A disclosure issued to the Borrower explaining that the Mortgage is not eligible for FHA mortgage insurance until after a final inspection, or the issuance of a Certificate of Occupancy (CO) by the local governmental jurisdiction, whichever is later.

(C) Either a fully executed contract agreement between the builder and the Borrower, which includes the contractor's price to build; or documentation of the actual costs of construction where the Borrower is acting as the general contractor.

(D) Documentation of land acquisition or land ownership.

(E) A payoff statement and evidence of the actual payoff if mortgage proceeds are used to purchase or pay off debt on the land.

ix. Escrow Account

At closing, after funds are disbursed to cover the purchase of the land, the balance of the mortgage proceeds must be placed in an escrow account to be disbursed as construction progresses.

The Mortgagee must obtain the Borrower's written authorization for each draw prior to disbursing funds to the contractor.

After completion of construction, the construction escrow account must be fully extinguished, and any remaining funds must be applied to the outstanding principal balance of the permanent Mortgage.

x. Required Documentation for Endorsement

The Mortgagee must comply with Required Documentation for New Construction Financing.

The following documentation is required for Mortgage endorsement:

- The Mortgagee must obtain a title update after conversion to the permanent Mortgage to show that the mortgaged Property is free and clear of all liens other than the Mortgage.
- The Mortgagee must verify and document that the construction was fully drawn down and that any remaining funds were used to pay down the principal balance on the permanent Mortgage.

xi. Endorsement

The Mortgage must be endorsed within 60 Days of the final inspection or issuance of the Certificate of Occupancy (CO), whichever is later.

xii. Start of Amortization

Amortization of the permanent Mortgage must begin no later than the first of the month following 60 Days from the date of the final inspection or issuance of the CO.

k. Building on Own Land (06/17/2019)

i. Definition

Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the Borrower and may include the extinguishing of any construction loans.

ii. Eligibility

The Borrower must have contracted with a builder to construct the dwelling. The builder must be a licensed general contractor.

The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

iii. Calculating Maximum Mortgage Amount

The Mortgagee must use the lesser of the appraised value or the documented Acquisition Cost to determine the Adjusted Value.

The maximum mortgage amount is calculated using the appropriate purchase Loan-to-Value (LTV) percentage of the lesser of the appraised value or the documented Acquisition Cost.

The documented Acquisition Cost of the Property includes:

- the builder's price or the sum of all subcontractor bids and materials;
- Borrower-paid options and construction costs not included in the builder's price to build;
- interest and other costs associated with a construction loan obtained by the Borrower to fund construction, if applicable; and
- either of the following:
  - the lesser of the cost of the land, or appraised value of the land, if the land is owned six months or less at case number assignment; **or**
  - the appraised value of the land if the land has been owned for greater than six months at case number assignment or was received as an acceptable Gift.

For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs.

iv. Minimum Required Investment

(A) Standard

The Borrower may utilize any cash investment in the Acquisition Cost of the Property or land equity to satisfy the MRI in accordance with Calculating Maximum Mortgage Amount.

(B) Required Documentation

The Mortgagee must document that the cash investment was from an acceptable source of funds in accordance with TOTAL or manual underwriting requirements as applicable.

If the land was given as a Gift to the Borrower, the Mortgagee must verify that the donor was not a prohibited source.

The Mortgagee must obtain standard gift documentation with TOTAL or manual underwriting requirements for any Gift of land.

v. Borrower's Additional Equity in the Property

The Borrower may not receive cash back from the additional equity in the Property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price. The Mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

vi. Required Documentation

The Mortgagee must document the date of purchase of the land by obtaining the Closing Disclosure or similar legal document.

The Mortgagee must obtain evidence that the funds used to pay Borrower-paid options were derived from an acceptable source. The Mortgagee must obtain an itemization of the options, expenses, and cost of each item.

The Mortgagee must comply with New Construction requirements.

l. Weatherization (08/02/2018)

The weatherization product permits the Borrower to finance the cost of eligible energy-related weatherization improvements, in conjunction with a purchase or refinance.

i. Eligibility

(A) Eligible Programs and Transaction Types

Weatherization improvements may be financed in conjunction with the following:

- Section 203(b)
  - purchase transaction
  - no cash-out refinance transaction
- Section 203(h) Mortgage Insurance for Disaster Victims
- Energy Efficient Mortgages (EEM)

For financing of weatherization under the 203(k) Rehabilitation Mortgage Insurance Program, refer to 203(k) Rehabilitation Mortgage Insurance Program.

(B) Eligible Property Types

Weatherization improvements may be used on the following property types:

- existing Properties (one- to four-units)
- condominiums (one unit)
- Manufactured Housing (single unit)

(C) Eligible Weatherization Items

Eligible energy-related weatherization items include the following measures:

- air sealing (including weather-stripping doors, caulking window and plumbing penetrations)
- insulation (attic, floors, walls, basement)
- duct sealing and insulation
- smart thermostats and equipment controls
- windows and doors
- low flow water fixtures
- carbon monoxide monitors and other combustion appliance safety measures

(D) Maximum Dollar Amount

The maximum allowable cost of energy-related weatherization items that can be financed is:

- $2,000 (not to exceed actual cost) without a separate value determination;
- $3,500 (not to exceed actual cost) if supported by a value determination made by an FHA Roster Appraiser; or
- no limit (not to exceed actual cost) if:

- supported by a value determination made by an FHA Roster Appraiser; and
- a separate on-site inspection is made by an ICC RCI or CI.

(E) Required Documentation

The Mortgagee must document the cost of work including the weatherization materials and labor.

(F) Maximum Mortgage Amount Calculation

When determining the Adjusted Value, the dollar limit of the energy-related weatherization items may be added to both the sales price and the Property Value.

(G) Weatherization Combined with Energy Efficient Mortgage

For existing Properties, energy-related weatherization items may be combined with the EEM.

(H) Cash-Out

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal Mortgage balance.

(I) Escrows

The Mortgagee must establish an escrow account for the remaining costs of the energy improvements if the installation of weatherization items is not complete by the time of closing for all Mortgages on existing Properties, except 203(k). The Mortgagee must establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements.

If the costs of the energy improvements and weatherization items are part of a 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy improvements and weatherization items must be included in the rehabilitation escrow account.

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

(J) Form HUD-92300, *Mortgagee's Assurance of Completion*

When funds to complete weatherization improvements are escrowed, the Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for weatherization improvements has been established.

ii. Completion Requirements for Weatherization Measures

(A) Time of Completion

Installation of weatherization improvements must be completed within:

- 30 Days of the mortgage Disbursement; or
- 90 Days of the mortgage Disbursement if the improvements are part of an energy package for an EEM.

The Mortgagee must apply the remaining weatherization escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames.

Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.

(B) Escrow Closeout Certification

After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

(C) Inspection

The Mortgagee or their agent must inspect the weatherization items or obtain evidence from a local authority that the system was installed in accordance with local requirements.

m. Solar and Wind Technologies (08/19/2024)

The solar and wind technologies policy allows the Mortgagee to increase the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the Property at the time of a purchase or refinance.

i. Eligibility

(A) Eligible Property Types

The following property types are eligible for the solar and wind technologies policy:

- one- to four-unit Properties
- Manufactured Housing (one unit)

Installation of solar and wind technologies on Manufactured Housing must comply with Additions to Manufactured Housing requirements.

Condominium units are ineligible for solar and wind technologies.

(B) Eligible Programs and Transaction Types

Costs for new solar and wind energy systems may be added to an FHA-insured base Mortgage, for the following programs:

- Section 203(b)
  - purchase transaction
  - Rate and Term refinance and Simple Refinance
- Section 203(h) Mortgage Insurance for Disaster Victims
- Section 203(k) Rehabilitation Mortgage Insurance Program

ii. Eligible Solar and Wind Technologies

Active and passive solar systems, as well as wind-driven systems, are acceptable.

(A) Photovoltaic Systems

Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement.

(B) Wind Turbine for Residential Properties

A wind turbine must:

- have a nameplate capacity of no more than 100 kilowatts;
- have a performance and safety certification from:
  - the International Electrotechnical Commission (IEC) standards from an accredited product certification body; or

  - the American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); and
- be installed by an installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification or small wind turbine installation training from an accredited training organization.

iii. Title to Systems

The Borrower must own, not lease, solar or wind energy systems for the systems to be considered eligible improvements. Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs.

iv. Maximum Mortgage Amount Calculation

(A) Maximum Mortgage Amount - Purchase

The Mortgagee must compute the Adjusted Value by using the purchase price excluding the cost and installation of the solar or wind technology system and the Property Value excluding the cost and installation of the solar or wind technology system.

The Mortgagee must add the lesser of:

- the cost and installation of the solar or wind technology system; or
- 20 percent of the Property Value to the Base Loan Amount.

The Mortgagee must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

(B) Maximum Mortgage Amount - Refinance

The Mortgagee must compute the Adjusted Value by using the Property Value without the cost and installation of the solar or wind technology system.

The Mortgagee must add the lesser of:

- the cost and installation of the solar or wind technology system; or
- 20 percent of the Property Value to the Base Loan Amount.

The Mortgagee must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

(C) Nationwide Mortgage Limit – Purchase and Refinance

The Base Loan Amount may exceed the Nationwide Mortgage Limit for the geographic area by no more than 20 percent. See Maximum Mortgage Amounts.

v. Required Documentation

The Mortgagee must document the cost of work, including the energy systems' materials and labor.

vi. Cash-Out

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, the Mortgagee must apply these funds to the principal Mortgage balance.

vii. Escrows

The Mortgagee must establish an escrow account in accordance with the Repair Completion Escrow Requirements for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing.

If the energy package is part of a 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the rehabilitation escrow account.

Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.

(A) Borrower Labor

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

(B) Required Documentation: Form HUD-92300, *Mortgagee's Assurance of Completion*

When funds to complete the solar or wind energy systems are escrowed, the Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for the solar or wind improvements has been established.

viii. Completion Requirements for Solar and Wind Technology Installation

(A) Time of Completion

Installations of solar and wind energy systems must be completed within 120 Days of the mortgage Disbursement.

The Mortgagee must apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal, if the work is not completed within the required time frames.

(B) Inspection

The Mortgagee or their agent must inspect the solar and wind improvement or obtain evidence from a local authority that the system was installed in accordance with local code.

(C) Escrow Closeout Certification

After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

n. Assumptions (08/19/2024)

i. Definition

Assumption refers to the transfer of an existing mortgage obligation from an existing Borrower to the assuming Borrower.

ii. Occupancy Eligibility Requirements

If the original Mortgage was closed on or after December 15, 1989, the assuming Borrower must intend to occupy the Property as a Principal Residence or HUD-approved Secondary Residence.

If the original Mortgage was closed prior to December 15, 1989, the assuming Borrower may assume the Mortgage as a Principal Residence, HUD-approved Secondary Residence or Investment Property.

iii. Restrictions on Loan-to-Value Ratio

(A) Investment Property

The maximum Loan-to-Value (LTV) for an Investment Property assumption is 75 percent.

Either the original appraised value or new Property Value may be used to determine compliance with the 75 percent LTV limitation.

(B) HUD-Approved Secondary Residence

The maximum LTV for a HUD-approved Secondary Residence assumption is 85 percent.

Either the original appraised value or new Property Value may be used to determine compliance with the 85 percent LTV limitation.

iv. Processing of an Assumption

(A) Initiating Processing

The Mortgagee must notify HUD via FHA Connection (FHAC) of assumptions:

- within 15 Days of any change of Borrower; or
- within 15 Days of the date the Mortgagee receives actual or constructive knowledge of the transfer of ownership.

This notification does not formally release the original Borrower from personal liability for the mortgage Note.

(B) Release of Liability

The Mortgagee must prepare form HUD-92210.1, *Approval of Purchaser and Release of Seller*, thereby releasing the original owner when they sell by assumption to the assuming Borrower who executes an agreement to assume the Mortgage and to pay the debt.

v. Underwriting Review

Assuming Borrowers must be underwritten in accordance with Origination through Post-closing/Endorsement, except for the following sections:

- Ordering Case Numbers
- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard

(A) Exceptions in Case of Transfer by Devise or Descent

The Mortgagee may process an assumption without credit review of the assuming Borrower if the transfer is by devise or descent, or other circumstances in which the transfer cannot legally lead to exercise of the due-on-sale, such as a divorce in which the party remaining on title retains occupancy, and the assuming Borrower can demonstrate that they have made the Mortgage Payments for a minimum of six months prior to the date of application of the assumption.

(B) Exception to Minimum Required Investment

The assuming Borrower is not required to make a cash investment in the Property. The assuming Borrower may assume 100 percent of the outstanding principal balance of the Mortgage, subject to the restrictions on LTV ratio for Investment Properties and HUD-approved Secondary Residences.

(C) Responsibility of Direct Endorsement Underwriter

The holding or servicing Mortgagee is responsible for the underwriting review. The review must be completed by a Direct Endorsement (DE) underwriter registered by the Mortgagee in FHAC. Where the holding or servicing Mortgagee does not originate Mortgages or is not approved under the Direct Endorsement Program, it may have an Authorized Agent perform the review.

(D) Use of TOTAL Mortgage Scorecard for Assumptions

The TOTAL Mortgage Scorecard must not be used for assumptions. The DE underwriter must manually underwrite the assumption.

vi. Allowable Fees and Charges

(A) Processing Fee and Other Costs

Mortgagees may charge the assuming Borrower a processing fee that is reasonable and customary not to exceed a maximum of $1,800.

The Mortgagee may charge the assuming Borrower other costs in accordance with Allowable Charges Separate from Assumption Processing Fees.

(B) Interested Party Contributions

The seller or other Interested Parties may make contributions toward the assuming Borrower's actual closing costs consistent with the requirements in Interested Party Contributions.

o. HUD Real Estate Owned Purchasing (09/20/2021)

i. Definition

(A) HUD REO Property

A HUD Real Estate Owned (REO) Property, also known as a HUD Home or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure or other means of acquisition on an FHA-insured Mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee.

(B) Insured HUD REO Property Purchase

An Insured HUD REO Property Purchase refers to the purchase of a HUD REO Property by a Borrower with a new FHA-insured Mortgage.

(C) Insured HUD REO Property Purchase Programs

(1) Section 203(b)

The HUD REO Property meets HUD's Minimum Property Requirements (MPR) in its as-is condition with no repairs, alterations, or inspections required.

(2) Section 203(b) with Repair Escrow

The HUD REO Property does not meet HUD's MPR in its as-is condition, but if repairs of no more than $10,000 are completed, the HUD REO Property would meet HUD's MPR. An escrow account to complete the repairs necessary to meet MPR after closing is required.

The Mortgagee must comply with the Repair Completion Escrow Requirements.

(3) Section 203(k)

The HUD REO Property does not qualify for Section 203(b) or Section 203(b) with Repair Escrow, and is eligible for FHA-insured financing only under Section 203(k).

(D) Special Sales Incentives

(1) Good Neighbor Next Door

The Good Neighbor Next Door (GNND) sales incentive permits an Owner-Occupant Borrower who is a full-time law enforcement officer, teacher, firefighter, or emergency medical technician who meets HUD requirements to purchase a specifically designated HUD REO Property located in a HUD-designated Revitalization Area with FHA-insured financing at a 50 percent

discount from the purchase price. When using FHA-insured financing, the Borrower may purchase the HUD REO Property with a minimum downpayment of $100. In addition, the Borrower may include in the mortgage amount customary and reasonable closing costs.

GNND purchases may be processed as Section 203(b), Section 203(b) with Repair Escrow, or Section 203(k).

(2) $100 Down

The $100 Down sales incentive permits a Borrower to purchase a HUD REO Property with FHA-insured financing with a minimum downpayment of $100.

$100 Down purchases may be processed as Section 203(b), Section 203(b) with Repair Escrow, or Section 203(k).

ii. Sales Contract

(A) General Requirements

The Mortgagee must obtain form HUD-9548, *Sales Contract Property Disposition Program*, and any applicable addenda, which will establish the purchase price, price discount, eligibility for GNND and eligibility for $100 Down, and meet the requirements for the Sales Contract.

(B) Contract Sales Terms

Line 4 of the sales contract will specify the Insured HUD REO Property Purchase Program under which the Borrower is applying, the downpayment, and the mortgage amount.

Regardless of the Insured HUD REO Property Purchase Program entered on Line 4 of form HUD-9548, the Mortgagee must determine the eligibility of the Property, the eligibility of the Borrower, and the specific Insured HUD REO Property Purchase Program that must be used to finance the purchase.

(C) Good Neighbor Next Door

Where the Borrower is approved for the GNND sales incentive, Line 8 will specify the discount that will be applied to the purchase price on Line 3. The amount of the cash downpayment specified on Line 4 will be $100.

(D) Eligible Nonprofit or State or Local Government Agency Borrower

Under certain circumstances, eligible nonprofit or state and local government agency Borrowers may purchase Properties at a discount from the stated listing price. Line 8 will specify the discount that will be applied to the purchase price on Line 3.

(E) $100 Down

Where the Borrower has been approved for the $100 Down sales incentive, the amount of the cash downpayment specified on Line 4 will be $100.

(F) Closing Costs and Sales Commissions Paid by HUD

The amount on Line 5 specifies the amount of closing costs that HUD will pay on behalf of the Borrower. The amounts on Line 6a and 6b represent the sales commissions HUD will pay to the selling and listing broker.

Contributions by HUD toward the Borrower's closing costs are not defined as Interested Party Contributions (TOTAL or Manual) or Inducements to Purchase (TOTAL or Manual).

iii. Ordering Case Numbers

(A) Section 203(b) and Section 203(b) with Repair Escrow

Mortgagees must order case numbers for Insured HUD REO Property Purchases in accordance with Ordering Case Numbers.

Mortgagees must select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO Property in the Prior Case Number field. The HUD REO Property case number can be found on the top right-hand corner of form HUD-9548.

(B) Section 203(k)

Mortgagees must order case numbers for Insured HUD REO Property Purchases in accordance with Case Number Assignment Data Entry Requirements.

Mortgagees must select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO Property in the Prior Case Number field. The HUD REO Property case number can be found on the top right-hand corner of form HUD-9548.

iv. Appraisals

(A) Ordering Appraisals

(1) Section 203(b) and Section 203(b) with Repair Escrow

Mortgagees must order appraisals in accordance with the requirements of Ordering Appraisals.

(2) Section 203(k)

Mortgagees must order appraisals in accordance with the requirements of Ordering Appraisals and Appraisals for Standard 203(k) and Limited 203(k).

(B) Appraisal Review and Property Acceptability

The Mortgagee must review the appraisal and property conditions in accordance with the requirements of Underwriting the Property.

v. Occupancy Types

(A) Principal Residence

An Owner-Occupant Borrower may purchase HUD REO Properties using Section 203(b), Section 203(b) with Repair Escrow, and Section 203(k).

(B) Investment Property

(1) Eligible Nonprofit or State or Local Government Agency Borrower

An eligible nonprofit or state or local government agency Borrower may purchase HUD REO Properties using Section 203(b), Section 203(b) with Repair Escrow, and Section 203(k).

(2) Investor Buyer

A Borrower may purchase HUD REO Properties as Investment Properties using Section 203(b) or Section 203(b) with Repair Escrow. These transactions must be scored through TOTAL Scorecard and then manually underwritten. The Mortgagee must downgrade and manually underwrite any Mortgage that received an Accept recommendation through TOTAL.

vi. Maximum Mortgage Amounts

(A) Section 203(b)

Mortgagees must calculate the maximum mortgage amounts in accordance with the requirements of Calculating Maximum Mortgage Amounts for Purchases, using the applicable Loan-To-Value ratio (LTV) from this section, subject to LTV Limitations Based on Borrower's Credit Score.

(1) Owner-Occupant Borrower

The maximum LTV is 96.5 percent.

(2) Eligible Nonprofit or State or Local Government Agency Borrower

The maximum LTV is 96.5 percent.

Where the eligible nonprofit or state or local government agency Borrower purchases the HUD REO Property at a discount, Mortgagees must calculate the discounted purchase price in accordance with the requirements for calculating the discounted purchase price for GNND transactions. The discounted purchase price must be used when determining the Adjusted Value.

(3) Investor Buyer

The maximum LTV is 75.0 percent.

(B) Section 203(b) with Repair Escrow

Mortgagees must initially calculate the mortgage amount in accordance with the requirements for Section 203(b) above. Mortgagees must add to the amount resulting from that calculation the amount of an escrow account for the completion of repairs after closing.

The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10 percent contingency. The total escrow amount, including the 10 percent contingency, must not exceed $11,000.

The Mortgagee must comply with the Repair Completion Escrow Requirements.

(C) Good Neighbor Next Door

(1) Discounted Purchase Price

Mortgagees must calculate the discounted purchase price and use that amount as the purchase price in determining the Adjusted Value for a 203(b) transaction or the Adjusted As-Is Value for a 203(k) transaction.

The discounted purchase price is calculated by reducing the contract sales price on Line 3 of form HUD-9548 by the discount percentage on Line 8 of form HUD-9548. To that amount the Mortgagee must add:

- sales commissions from Line 6 of form HUD-9548; and
- any Borrower-paid closing costs (including prepaid items).

(2) Section 203(b)

Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the Adjusted Value.

(3) Section 203(b) with Repair Escrow

Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed $11,000.

(D) $100 Down

(1) Section 203(b)

Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the Adjusted Value.

(2) Section 203(b) with Repair Escrow

Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed $11,000.

(E) Section 203(k)

(1) Owner-Occupant Borrower

Mortgagees must calculate the maximum mortgage amount in accordance with the requirements of Section 203(k) Maximum Mortgage Amount for Purchases.

(2) Eligible Nonprofit and State and Local Government Agency Borrower

Mortgagees must calculate the maximum mortgage amount in accordance with the requirements of Section 203(k) Maximum Mortgage Amount for Purchases.

Where the eligible nonprofit or state or local government agency Borrower purchases the HUD REO Property at a discount, Mortgagees must calculate the discounted purchase price in accordance with the requirements for calculating the discounted purchase price for GNND transactions. The discounted purchase price must be used when determining the Adjusted As-Is Value.

(3) GNND and $100 Down

The maximum mortgage amount that FHA will insure on a GNND 203(k) purchase is the lesser of:

- the Adjusted As-is Value, plus:
  - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
  - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
  - Financeable Contingency Reserves for Standard 203(k) or Limited 203(k);

  - other Borrower-paid closing costs, including prepaid items; and
  - Financeable Mortgage Payment Reserves, for Standard 203(k) only;
  - minus $100; or
- 110 percent of the After Improved Value (100 percent for condominiums), minus $100; or
- the Nationwide Mortgage Limits.

vii. Additional Section 203(b) with Repair Escrow Requirements

(A) FHA Connection Insuring Application

The Mortgagee must check "Yes" in the Escrow Data field. The Mortgagee must enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field.

(B) Required Documentation

The Mortgagee must comply with the Repair Completion Escrow Requirements.

viii. Additional GNND Requirements for FHAC Insuring Application

(A) Repair Escrow

If insured under Section 203(b) with Repair Escrow, the Mortgagee must check "Yes" in the Escrow Data field. The Mortgagee must enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field.

(B) Required Documentation

The Mortgagee must comply with the Repair Completion Escrow Requirements.

(C) Sales Price

Mortgagees must enter the discounted purchase price.

(D) Secondary Financing

Mortgagees must complete information regarding secondary financing by entering:

- "Yes" in the Secondary Financing field;
- the amount of the discount by which the sales price was reduced in the Amount field;
- "Federal Government" in the Source of Funds field; and
- "HUD GNND" in the Source Name field.

(E) $100 Down

In the $100 REO Down Payment Program field, Mortgagees must enter "Yes."

ix. Additional $100 Down Requirements for FHAC Insuring Application

In the $100 REO Down Payment Program field, Mortgagees must enter “Yes.”

p. Condominiums (11/10/2026)

The Federal Housing Administration (FHA) will insure Mortgages on Condominium Units (Units) in Approved Condominium Projects that have been approved under the HUD Review and Approval Process (HRAP) or Direct Endorsement Lender Review and Approval Process (DELRAP). In addition, FHA will insure Mortgages on Units approved in accordance with the Single-Unit Approval section or that meet the definition and standards for a Site Condominium.

i. Units Not Requiring Approval

(A) Real Estate Owned Mortgages

HUD Real Estate Owned (REO) Mortgage transactions do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

(B) Streamline Refinances

Streamline Refinances do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

ii. Requirements for Units in Approved Condominium Projects

The Mortgagee must verify the following requirements for individual Units located in an Approved Condominium Project or Legal Phase.

(A) Condominium Project Approval Status

The Mortgagee must confirm the Condominium Project is on the list of FHA-Approved Condominium Projects at the time of case number assignment and must enter the FHA Condo ID in the Federal Housing Administration Connection (FHAC) Case Assignment screen.

(B) FHA Insurance Concentration

(1) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(2) Standard

FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project where the FHA Insurance Concentration is greater than 50 percent of the total number of Units in the Condominium Project.

(C) Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire*

(1) Definition

Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire,* refers to a set of questions designed to collect pertinent loan, Condominium Project, and Unit information for FHA insurance endorsement.

(2) Standard

The Mortgagee must submit a completed, signed, and dated form HUD-9991.

(D) Owner Occupancy Percentage

(1) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(2) Standard

The Mortgagee must determine the Approved Condominium Project has an Owner Occupancy Percentage of at least 35 percent of the total number of Units.

The Mortgagee must report the Owner Occupancy Percentage in FHAC when the functionality becomes available.

(3) Required Documentation

The Mortgagee must submit form HUD-9991.

(4) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units in the numerator of the calculation:

- any Unit that is occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or

- any Unit sold to an owner who intends to occupy the Unit as their place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

(E) Financial Condition

(1) Units in Arrears

(a) Definition

Units in Arrears refer to each Unit with Condominium Association dues or any special assessments that are more than 60 Days past due.

(b) Standard

The Mortgagee must verify that no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(2) Individual Owner Concentration

(a) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes, but is not limited to:

- an individual serving as the Unit owners' officer, director, or employee; or
- a Unit owner's direct parent company, subsidiary, or any related entity with which the Unit owner shares a common officer or director.

(b) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

Exception

Affordable housing Units owned by an eligible governmental or nonprofit program defined in 24 CFR § 203.41 are not subject to the Individual Owner Concentration requirements. The affordable housing Units must be identified by recorded legal documents.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(d) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut Rehab to calculate the Individual Owner Concentration.

(F) Insurance

(1) Walls-In (HO-6)

(a) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(b) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In policy (HO-6) if the master or blanket policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

(c) Required Documentation

The Mortgagee must submit form HUD-9991 and the certificate of insurance or complete copy of the insurance policy.

(2) Hazard Insurance

(a) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences.

(b) Standard

The Mortgagee must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Condominium Project. The Condominium Association's master or blanket Hazard Insurance policy must be in an amount to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Approved Condominium Project.

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement, selection of the agreed value option, or an amount of coverage to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Approved Condominium Project.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(c) Required Documentation

The Mortgagee must submit form HUD-9991, the certificate of insurance or complete copy of the insurance policy, and if applicable, acceptable evidence of the replacement cost value.

(3) Flood Insurance

(a) Standard

Flood Insurance for Condominiums must meet the requirements in Flood Insurance.

The Mortgagee must verify that the Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continues to meet the Flood Insurance requirements in the Condominium Project Approval section.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(b) Required Documentation

The Mortgagee must submit:

- form HUD-9991;
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152); and
- if applicable, the certificate of insurance or a complete copy of the Flood Insurance policy.

(4) Exception for FHA Insurance Requirements

This exception applies to Manufactured Home Condominium Projects, Detached Condominium Housing Projects, and Common Interest Housing Developments unable to satisfy the current insurance requirements.

(a) Definitions

A Manufactured Home Condominium Project (MHCP) refers to a Condominium Project that consists of two or more Manufactured Homes.

A Detached Condominium Housing Project (DCHP) refers to a Condominium Project that has individual detached Single Family Dwelling Units, garage, and onsite improvements that are owned and maintained by the homeowner. The ground beneath the residential improvements is owned by the Condominium Association or Homeowners' Association (HOA) or is under a long-term leasehold interest and considered common area or limited common area.

A Common Interest Housing Development (CIHD) refers to a planned residential community that may consist of Units within a two- to four-unit building and/or contain multiple housing types, structured with different ownership interests, managed by a common Condominium Association or HOA, and governed under one Declaration of Covenants, Conditions, and Restrictions (CC&Rs). The CIHD may share a variety of common amenities and services.

(b) Standard

The Mortgagee must verify that the Unit owners and the Condominium Association or HOA comply with FHA insurance coverage requirements.

(i) Manufactured Housing Condominium Project

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the MHCP is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance (Walls-In);
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; or
- a Flood Insurance policy, provided that the governing documents require the Unit owners to maintain individual Flood Insurance if the Unit has been identified as located in a Special Flood Hazard Area (SFHA).

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(ii) Detached Condominium Housing Project

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(iii) Common Interest Housing Development

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two-to-four units within the project to maintain and carry property insurance for the dwelling, site area and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Liability, and Flood insurance for the Structures that contain the attached units and the common areas of the project.

(c) Required Documentation

The Mortgagee must submit form HUD-9991 and the certificates of insurance or complete copies of the insurance policies.

(G) Leasehold Interest

(1) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

The Mortgagee must determine if the Unit is owned under a Leasehold Interest and complies with the leasehold guidance.

(3) Required Documentation

The Mortgagee must document verification of compliance and submit the required documentation in the leasehold guidance.

(H) New Construction

(1) Definitions

New Construction refers to Proposed Construction, Properties (or Condominium Projects) Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

Complete Condominium Project refers to a Condominium Project consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project, and not subject to further rehabilitation or construction.

(2) Standard

For Complete Condominium Projects, the Mortgagee must comply with the General Condominium Project Approval Requirements and the New Construction guidance.

(3) Required Documentation

The Mortgagee must submit required documentation for New Construction under the guidance in New Construction.

(I) Gut Rehabilitation

(1) Definition

Gut Rehabilitation (Gut Rehab) refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

(2) Standard

For Gut Rehab conversion Condominium Projects, the Mortgagee must comply with the General Condominium Project Approval Requirements and the New Construction guidance.

(3) Required Documentation

The Mortgagee must submit required documentation for Gut Rehab under the guidance in New Construction.

(J) Manufactured Housing

(1) Definition

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional eligibility standards prescribed in Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages.

A Manufactured Home refers to a single Dwelling Unit of Manufactured Housing.

(2) Standard

For a Manufactured Home, the Mortgagee must comply with the General Condominium Project Approval Requirements and the guidance in Property Types - Manufactured Housing.

(3) Required Documentation

The Mortgagee must submit form HUD-9991 and the required documentation for Manufactured Housing under the guidance in Property Types - Manufactured Housing.

iii. Single-Unit Approval

Single-Unit Approval refers to approval of a Unit in a Condominium Project that is not an Approved Condominium Project.

The Mortgagee must verify that the Unit and Condominium Project are in compliance with the following requirements.

(A) Condominium Project Approval Status

The Mortgagee must confirm the Condominium Project is not on the list of FHA-Approved Condominium Projects at the time of case number assignment.

(B) Borrower Eligibility

To be eligible for Single-Unit Approval, the Mortgagee must verify that the mortgage application receives an Accept from TOTAL Mortgage Scorecard or if manually underwritten, has a maximum Loan-to-Value (LTV) of 90 percent.

(C) Property Eligibility

The Mortgagee must confirm that the Condominium Project:

- has a CO or equivalent for all units in the Complete Condominium Project or Complete Legal Phase;
- has a CO or equivalent for the subject Unit that was issued at least one year ago or has been occupied;
- has at least five Units;
- is not a Manufactured Home;
- does not have Ineligible Characteristics;
- is not an Approved Condominium Project or unapproved phase of a Condominium Project with an approved Legal Phase; and
- complies with the Legal Restrictions on Conveyance (Free Assumability) requirements as defined in 24 CFR § 203.41.

(D) Requirements for Eligible Properties

(1) FHA Insurance Concentration

(a) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(b) Standard

FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project when the FHA Insurance Concentration exceeds 10 percent of the total number of Units in the Condominium Project for Condominium Projects with 20 or more Units. For Condominium Projects with less than 20 Units, the number of FHA-insured Mortgages cannot exceed two.

(2) Single-Unit Approval Case Number Assignment

(a) Standard

Mortgagees must order case numbers for Units in Condominium Projects for Single-Unit Approval processing in accordance with the requirements in Ordering Case Numbers. If the case number assignment request is placed in Holds Tracking in FHAC, the Mortgagee must submit required information for case number assignment to the FHA Resource Center. The issuance of an FHA case number for Single-Unit Approval processing is not a Condominium Project Approval of the Unit nor the Condominium Project. All required documents and verifications are to be reviewed and completed as loan level requirements by the Mortgagee.

(b) Required Documentation

If a case number has not been assigned, the Mortgagee must submit to the FHA Resource Center information from the following sections of form HUD-9991: Mortgagee Information, Condominium Project Information, Condominium Association, and Occupancy Requirements by Construction Type, including the total number of Units in the Condominium Project. This information must be submitted by email to answers@hud.gov or via the HUD FHA Self-Service Portal. A separate email with the subject line "SUA Holds Tracking: [Insert Condominium Project Name]" must be submitted for each case number requested.

(3) Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire*

(a) Definition

Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire,* refers to a set of questions designed to collect pertinent loan, Condominium Project, and Unit information for FHA insurance endorsement.

(b) Standard

The Mortgagee must submit a completed, signed, and dated form HUD-9991.

(4) Owner Occupancy Percentage

(a) Definitions

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(b) Standard

The Mortgagee must determine that the Condominium Project has an Owner Occupancy Percentage of at least 50 percent of the total number of Units.

The Mortgagee must report the Owner Occupancy Percentage in FHAC when the functionality becomes available.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(d) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project

includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units are included in the numerator of the calculation:

- any Unit that is occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as their place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

(5) Recorded Documents

(a) Definition

Recorded Documents refer to the Condominium Project's legal, project, and governing documents that are required to operate legally as required by state and local law.

(b) Standard

The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project can be legally operated in the local jurisdiction.

(c) Required Documentation

The Mortgagee must submit evidence that the Recorded Documents have been recorded.

(6) Transfer of Control

(a) Definitions

Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.

Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify, or veto any action of the Condominium Association.

(b) Standard

The Mortgagee must verify Control of the Condominium Association has been transferred to the Unit owners and the Covenants, Conditions, and Restrictions (CC&R) have been recorded.

(c) Required Documentation

The Mortgagee must submit form HUD-9991 and recorded CC&Rs.

(7) Financial Condition

(a) Financial Stability

(i) Definitions

Financial Stability refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

(ii) Standard

The Mortgagee must verify the Financial Stability of the Condominium Project and that:

- the Condominium Association maintains separate accounts for operating and reserve funds;
- a reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate of 12 months of Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study; and
- no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(iii) Required Documentation

The Mortgagee must submit form HUD-9991.

(b) Financial Distress Event

(i) Definition

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- sought protection under bankruptcy laws;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a Deed-in-Lieu (DIL) of Foreclosure.

(ii) Standard

The Mortgagee must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991.

If applicable, the Mortgagee must submit a dated legal document evidencing Resolution of Financial Distress Event and a signed and dated explanation.

(c) Individual Owner Concentration

(i) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes, but is not limited to:

- an individual serving as the Unit owners' officer, director, or employee; or
- a Unit owner's direct parent company, subsidiary, or any related entity with which the Unit owner shares a common officer or director.

(ii) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991.

(iv) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut Rehab to calculate the Individual Owner Concentration.

(d) Commercial/Nonresidential Financial Independence

(i) Definition

Commercial/Nonresidential Financial Independence refers to the ability of the Residential Space and Commercial/Nonresidential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

(ii) Standard

For projects with Commercial/Nonresidential Space, the Mortgagee must verify there is Commercial/Nonresidential Financial Independence.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991.

For Condominium Projects with Commercial/Nonresidential Space, the Mortgagee must submit:

- a current year budget approved by the board(s);
- a year-to-date income and expense statement dated within 90 Days if the prior year to date actuals are more than 90 Days old;
- an income and expense statement for the previous year's actual year end results; and

- a current balance sheet dated within 90 Days prior to the date of submission.

(8) Insurance Coverage

The Condominium Project where the single Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an affiliated Condominium Project or Condominium Association, the name of the affiliated Condominium Project or Condominium Association may be listed as a named insured.

(a) Walls-In (HO-6)

(i) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(ii) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In policy (HO-6) if the master or blanket policy does not include interior Unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and a certificate of insurance or complete copy of the insurance policy.

(b) Hazard Insurance

(i) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences.

(ii) Standard

The Mortgagee must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Condominium Project. The Condominium Association’s master or blanket Hazard Insurance policy must be in an amount to fully cover the insurable

replacement cost of all Units and all insurable Common Elements in the Condominium Project.

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement, selection of the agreed value option, or an amount of coverage to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Condominium Project.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991, a certificate of insurance or complete copy of the insurance policy, and if applicable, acceptable evidence of the replacement cost value.

(c) Liability Insurance

(i) Definition

Liability Insurance refers to insurance that protects against legal claims.

(ii) Standard

The Mortgagee must verify that the Condominium Association maintains comprehensive Liability Insurance for the entire Condominium Project, including all common areas, elements, public ways, and all other areas that are under its supervision, in the amount of at least $1 million for each occurrence.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and a certificate of insurance or complete copy of the insurance policy.

(d) Fidelity Insurance

(i) Definition

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime, or other fraudulent acts conducted by one or more employees.

(ii) Standard

The Mortgagee must verify that for all Condominium Projects with more than 20 Units, the Condominium Association maintains Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

The Mortgagee must verify that the insurance coverage is the greater of either:

- three months of aggregate (12-month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
- the minimum amount required by state law.

For existing policies, an uninsured amount within 3 percent of the above calculation or $10,000, whichever is less, is acceptable.

If the Condominium Project engages a management company, the policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and the certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company.

(e) Flood Insurance

(i) Standard

The Mortgagee must ensure that the Flood Insurance for a Condominium Unit meets the requirements in/under Flood Insurance for an FHA-insured Mortgage.

The Mortgagee must verify that Units in a Condominium Project located in a SFHA meet the Flood Insurance requirements in the Condominium Project Approval section.

(ii) Required Documentation

The Mortgagee must submit form HUD-9991 and the required documentation in Condominium Project Approval.

(f) Exception for FHA Insurance Requirements

The Mortgagee must verify that the Unit owners and Condominium Association or HOA comply with FHA insurance coverage requirements.

(i) Detached Condominium Housing Project Eligibility

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance (Walls-In);
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(ii) Common Interest Housing Development Project

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two- to-four units within the project to maintain and carry property insurance for the dwelling, site area, and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Liability, and Flood Insurance for the Structures that contain the attached units and the common areas of the project.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and certificates of insurance or complete copies of the insurance policies.

(9) Projects in Coastal Barrier Resources System or Special Flood Hazard Areas

(a) Projects in Coastal Barrier Resources System

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA Single-Unit Approval.

(b) Special Flood Hazard Areas

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project meets the Special Flood Hazard Areas requirements in the Condominium Project Approval section.

(10) Commercial/Nonresidential Space

(a) Definitions

Commercial/Nonresidential Space refers to floor area allocated to:

- retail and commercial square footage (excludes Live/Work Units);
- multilevel parking garage square footage that is separate from multilevel parking garage square footage allocated to residential Unit owners;
- building common areas not reserved for the exclusive use of residential Unit owners; and
- any square footage that is owned by a private individual or entity outside of the Condominium Association.

Residential Space refers to floor area allocated to:

- all Unit square footage;
- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Nonresidential Space.

Total Floor Area refers to all Residential Space and Commercial/Nonresidential Space.

(b) Standard

The Mortgagee must verify that the Condominium Project's Commercial/Nonresidential Space does not exceed 35 percent of the Condominium Project's Total Floor Area.

(c) Required Documentation

The Mortgagee must submit the following documentation:

- form HUD-9991;
- recorded condominium site plans; and
- recorded CC&Rs.

(11) Live/Work Unit

(a) Definitions

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for nonresidential and residential purposes.

A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

(b) Standard

The Mortgagee must verify that the Condominium Project governing documents allow Live/Work arrangements.

The Mortgagee must verify that the individual Live/Work Unit does not contain more than 49 percent Commercial/Nonresidential Space.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(12) Leasehold Interest

(a) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(b) Standard

The Mortgagee must determine if Condominium Projects with Units or Common Elements owned under a Leasehold Interest are eligible and meet the following requirements:

- The Condominium Association must be the lessee under the lease.
- The lease of the Common Elements provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners.
- The lease provides that the Mortgagee receives notice of any monetary or Non-Monetary Default by the Condominium Association and is given the right to cure any defaults on behalf of the Condominium Association.
- The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
- The Condominium Association must not be in default under any provisions of the lease.
- The lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.
- The Condominium Project must comply with the Title II or Home Equity Conversion Mortgage (HECM) Leasehold guidance as applicable.

(c) Required Documentation

The Mortgagee must submit the lease and comply with the required documentation in the Leasehold guidance.

(13) Litigation

(a) Definition

Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

(b) Standard

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to Litigation that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

iv. Site Condominium

(A) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse-style) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

(B) Standard

The Unit owner must be responsible for all required insurance and maintenance costs associated with the Unit dwelling, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(C) Required Documentation

The Mortgagee must submit the following documentation:

- Condominium Rider;
- appraisal completed on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*, evidencing that all Units satisfy the Site Condominium definition;
- certificate of Hazard Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling; and
- if required under the Flood Insurance requirements in the Condominium Project Approval Section, certificate of Flood Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling.

9. 203(k) Consultant Requirements

a. Overview (09/14/2015)

A Federal Housing Administration (FHA)-approved 203(k) Consultant is required for all Standard 203(k) Mortgages and may be used for Limited 203(k) Mortgages. Any Consultant who performs work on a 203(k) must be listed on the FHA 203(k) Consultant Roster. The Consultant inspects the Property and prepares the architectural exhibits, the Work Write-Up and Cost Estimate.

For information on how to become an approved 203(k) Consultant, refer to Doing Business with FHA.

b. Consultant Duties (04/18/2023)

The assigned Consultant must perform the following duties in accordance with the requirements set forth below.

i. Feasibility Study

If requested by the Borrower or Mortgagee to determine if a project is financially feasible, the Consultant must prepare a Feasibility Study.

ii. Consultant Inspection

The Consultant must personally conduct an on-site property inspection to ensure:

- there are no rodents, dry rot, termites and other infestation on the Property;
- there are no defects that will affect the health and safety of the occupants;
- there exist adequate structural, heating, plumbing, electrical and roofing systems; and
- there are upgrades to the Structure's thermal protection (when necessary).

The Consultant must prepare a report on the current condition of the Property that categorically examines the Structure utilizing the 35 point checklist. The report must address any deficiencies that exist and certify the condition of all major systems: electrical, plumbing, heating, roofing and structural.

The Consultant must determine the repairs/improvements that are required to meet the U.S. Department of Housing and Urban Development (HUD)'s Minimum Property Requirements (MPR), Minimum Property Standards (MPS) and local requirements.

iii. Architectural Exhibits

The Consultant is responsible for identifying all required architectural exhibits. The Consultant must prepare the exhibits, or, if not qualified to prepare all of the necessary exhibits, must obtain the exhibits from a qualified subcontractor.

iv. Work Write-Up and Cost Estimate

The Consultant must prepare an unbiased Work Write-Up and Cost Estimate without the use of the contractor's estimate. The Work Write-Up and Cost Estimate must be detailed as to work being performed per the project proposal, including the necessary reports described in the Architectural Exhibit Review section.

v. Draw Request Inspection

The Consultant must inspect the work for completion and quality of workmanship at each draw request.

vi. Change Order

At the Borrower's or Mortgagee's request, the Consultant must review the proposed changes to the Work Write-Up and prepare a change order.

vii. Work Stoppages or Deviations from the Approved Write-Up

The Consultant must inform the Mortgagee of the progress of the rehabilitation and of any problems that arise, including:

- work stoppages of more than 30 consecutive Days or work not progressing reasonably during the rehabilitation period;
- significant deviations from the Work Write-Up without the Consultant's approval;
- any issues that could affect adherence to the program requirements or property eligibility; or
- any issues that could affect the health and safety of the occupants or the security of the Structure.

c. Consultant Fee Schedule (11/04/2024)

Below are the maximum fees that may be charged by the Consultant.

i. Feasibility Study

If requested by the Borrower or Mortgagee to determine if a 203(k) Mortgage is feasible, the Consultant may charge an additional fee of $375 for the preparation of a Feasibility Study.

ii. Work Write-Up

The Consultant may charge the fees listed below for the preparation of the Work Write-Up and review of architectural exhibits:

- Up to $1,000 for repairs less than or equal to $50,000
- Up to $1,200 for repairs between $50,001 and $85,000
- Up to $1,400 for repairs between $85,001 and $140,000

- Up to 1 percent of the repair costs or $2,000, whichever is lower, for repairs over $140,000

The Consultant may charge an additional $25 per additional Dwelling Unit.

iii. Draw Inspection Fee

For each draw request, the Consultant may charge an inspection fee that is reasonable and customary for work performed in the area where the Property is located, provided the fee does not exceed a maximum of $375.

iv. Change Order Fee

The Consultant may charge $120 per change order request.

v. Reinspection Fee

The Consultant may charge a $225 fee when reinspection of a Work Item is requested by the Borrower or Mortgagee.

vi. Mileage Fee

The Consultant may charge a mileage fee at the current Internal Revenue Service (IRS) mileage rate when the Consultant's place of business is more than 15 miles from the Property.

d. Improvements Standards (02/16/2021)

i. General Improvement Standards

The Consultant must ensure that the Property will comply with HUD's MPR or HUD's MPS after the improvements have been completed.

ii. Improvement Standards for Storm Shelters

When a storm shelter is part of the rehabilitation, the Consultant must ensure that its construction is consistent with guidelines issued by the Federal Emergency Management Agency (FEMA).

iii. Foundation Standards

(A) Existing Structure Moved to a New Foundation

Prior to placement of the existing Structure on the new foundation, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the foundation is structurally sound and capable of supporting the Structure.

After placement of the existing Structure on the new foundation, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the Structure has been properly placed and secured to the new foundation.

(B) Structure is Reconstructed on the Existing Foundation

Prior to reconstruction of the Structure, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the foundation is structurally sound and capable of supporting the proposed reconstruction of the Structure.

(C) Existing Structure will be Elevated

Prior to elevation of the existing Structure, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the foundation is structurally sound and capable of supporting the Structure.

After elevation of the existing Structure, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the Structure has been properly placed and secured to the new foundation.

e. Consultant 35 Point Checklist (09/14/2015)

The Consultant must inspect the Property and address the following 35 points, if applicable, in the Work Write-Up and Cost Estimate:

1. **Masonry**. Describe masonry work to be performed, such as: point brickwork; stucco; construction of brick walls; construction/repair of brick, masonry or stone chimney; etc. Most estimates must be based on square footage projections.

2. **Siding**. Describe siding work to be performed, such as: replacement of defective siding, fascia and soffits; installation of new vinyl siding with aluminum window trim; etc. Most estimates must be based on square footage, lineal footage and length projections.

3. **Gutters and Downspouts**. Describe gutter and downspout work to be performed, such as: replacement of bad or missing gutters and downspouts; cleaning and opening downspouts; installation of splash block; etc. Most estimates must be based on lineal footage projections.

4. **Roof**. Describe roof work to be performed, such as: installation of a new built-up roof, with new metal gravel stops; installation of 240 Sealtab asphalt shingles on all roofs with a 3:12 pitch or greater; etc. Roofs that already have two layers of shingles should not be roofed again. Remove the existing shingles, then roof with new shingles. Most estimates must be based on square footage projections.

5. **Shutters**. Describe shutter work to be performed, such as: installation of shutters at windows; etc. Most estimates must be based on pair pricing.

6. **Exteriors**. Describe exterior work to be performed, such as: removal of defective, buckled wood members; providing a structurally sound porch floor, properly finished; replacement of existing porch with masonry steps and stoops; providing ornamental iron or wood railing or parts; etc. Most estimates must be based on lineal or square footage projections.

7. **Walks**. Describe walk work to be performed, such as: installation of new concrete walks; installation of concrete steps at (____); etc. Most estimates must be based on square and lineal footage projections.

8. **Driveways**. Describe driveway work to be performed, such as: remove old driveway and apron; install blacktop asphalt drive (minimum two feet) over existing drive and apron; install new concrete driveway (minimum four feet) and apron with wire mesh; etc. Most estimates must be based on square and lineal footage projections.

9. **Painting (Exterior)**. Describe exterior painting work to be performed, such as: scrape, sand smooth and paint a minimum of two coats of good quality paint on all exterior woodwork and metal; etc. Most estimates must be based on square and lineal footage projections. If the Property was built before 1978, a U.S. Environmental Protection Agency (EPA) or state-certified lead-safe renovation contractor must be used for the painting work; machine sanding and use of propane or gasoline torches (open flame methods) are not permitted, and just washing and repainting without thorough removal or covering with siding does not constitute adequate treatment.

   Required Work Items: All defective (cracking, scaling, chipping, peeling, loose, or flaking paint and paint that is to be disturbed by this Painting (Exterior) point or other points in the Work Write-Up must be scraped, primed and double coated. Because of the concern for lead paint ingestion, all peeling paint conditions must include scraping, priming and double coating of surface areas. If the Property was built before 1978, paint mitigation must be in compliance with EPA's Renovation, Repair and Painting Rule and HUD's lead-based paint regulations regarding paint mitigation at 24 CFR 200.810(c). Some states may require more specific treatment.

10. **Caulking**. Describe caulking to be performed, such as: caulk all windows and door frames; etc. Most estimates must be based on lineal footage or lump sum projections.

    Required Work Item: Caulk all openings, cracks or joints in the building envelope to reduce air infiltration.

11. **Fencing**. Describe fencing work to be performed, such as: installation of new fencing; resetting existing fencing; etc. Most estimates must be based on lineal footage projections.

12. **Grading**. Describe grading work to be performed, such as: removal of debris from yards; application of finish earth; grade and seed; etc. Most estimates must be based on square yard and lump sum projections.

13. **Windows**. Describe window work to be performed, such as: installation of new metal replacement windows; replacement of rotted or defective sash; replacement of rotted sills at exterior; replacement of basement windows; replacement of cracked/broken glass; replacement of missing glazing putty; repair or replacement of screens; etc. If a particular manufactured window is used, then the Work Write-Up should specify to justify the cost of the windows. Most estimates must be based on per window projections.

14. **Weather-stripping**. Describe weather-stripping to be performed, such as: installation of new weather-stripping at all exterior doors; weather-strip all windows; install metal interlocking thresholds at exterior doors; etc. Most estimates must be based on per unit and linear footage projections.

    Required Work Item: Weather-strip all doors and windows in living areas to reduce infiltration of air when existing weather-stripping is inadequate or nonexistent.

15. **Doors (Exterior)**. Describe door work to be performed, such as: install new 1 3/4" exterior solid core wood door(s); install 1 3/4" metal insulated door; install three new door butts; install new exterior door trim; install new lockset with deadbolt; etc. Most estimates must be based on per unit and linear footage projections. Address weather-stripping and caulking of all replacement doors and trim.

16. **Doors (Interior)**. Describe interior door work to be performed, such as: replacement of defective doors; installation of new doors with locksets; installation of locksets where missing or malfunctioning; readjusting all doors for proper closing; installation of bedroom closet doors; installation of bifold doors at (____); installation of door trim at (____); etc. Most estimates must be based on per unit projections.

17. **Partitions** (Do not include drywall costs). Describe partitioning work to be performed, such as: framing of new walls and partitions; framing for new closet; etc. Most estimates must be based on lineal or square footage projections.

18. **Plaster/Drywall**. Describe plaster and drywall work to be performed, such as: patch all defective plaster/drywall; finish smooth with existing wall/ceiling finish; install drywall at (____); etc. Most estimates must be based on lump sum and square footage projections.

19. **Decorating**. Describe painting work to be performed, such as: paint interior walls; remove all existing wallpaper at (____); wallpaper walls at (____);treat defective (cracking, scaling, chipping, peeling, loose, or flaking) paint and paint that is to be disturbed by this Decorating point or other points in the Work Write-Up, and refinish surfaces at (____); etc. Most estimates must be based on square and lineal footage projections.

    Required Work Items: All defective (cracking, scaling, chipping, peeling, loose, or flaking) paint and paint to be disturbed by this Decorating point or other points in the Work Write-Up must be scraped, primed and double coated. Because of the concern

for lead paint ingestion, all peeling paint conditions must include scraping, priming and double coating of surface areas. If the Property was built before 1978, paint mitigation must be in compliance with EPA's Renovation, Repair and Painting Rule and HUD's lead-based paint regulations regarding paint mitigation at 24 CFR 200.810(c). Some states may require more specific treatment.

20. **Wood Trim**. Describe wood trim work to be performed, such as: replace all cracked, broken, mismatched trim, jambs, etc.; remove all unused hinges, curtain rod hangers, nails, screws, etc.; replace all wood trim at interior door units, base, shoe & other trim; replace defective wall paneling at (____); etc. Most estimates must be based on square and lineal footage, per unit, and lump sum projections.

21. **Stairs**. Describe stair work to be performed, such as: replace bad basement treads and risers; replace main stairs, treads and risers; replace broken and/or missing baluster; provide handrails; install new stairs at (____); etc. Most estimates must be based on lump sum and lineal footage projections.

22. **Closets**. Describe closet work to be performed, such as: install new shelves, clothing rods; etc. Most estimates must be based on lineal footage projections.

23. **Wood Floors**. Describe wood floor work to be performed, such as: replace all defective flooring, holes in floors, etc., with wood flooring to match existing floors; sand, fill and refinish wood floors; install new hardwood floors at (____); etc. Most estimates must be based on square footage projections.

24. **Finish Floors**. Describe finish floor work to be performed, such as: install vinyl tile or sheet goods with 1/4" underlayment at (____); install carpet and pad at (____); etc. Specify nonstandard type flooring to justify the cost estimate. Most estimates must be based on square yard projections.

25. **Ceramic Tile**. Describe ceramic tile work to be performed, such as: install ceramic tile wainscot in bathtub area for shower height; install ceramic tile floor at (____); install Marlite wainscot in bathtub area for shower height; replace defective tile in bath; replace defective tile in kitchen; etc. Most estimates must be based on square footage or lump sum projections.

26. **Bath Accessories**. Describe bath accessory work to be performed, such as: replace medicine cabinet in bath; install towel bar(s); install soap dish; install grab bar in tub/shower; etc. Most estimates must be based on per unit projections.

27. **Plumbing**. Describe plumbing work to be performed, such as: install new hot and cold water piping; install 30 gallon (minimum) glass-lined gas hot water heater (52 gallon if electric); install new kitchen stainless steel sink; install three-piece bathroom with shower over tub; install laundry tray with faucet; replace washers at faucets; replace defective sewer lines; connect to public sewer line; replace defective faucet at (____); etc. Most estimates must be based on per unit, lump sum and lineal footage projections.

Required Work Item: When feasible, connect to public sewer system where available.

28. **Electrical**. Describe electrical work to be performed, such as: install 100 amp service; replace frayed exterior wire from service to main and into exterior panel box; install new ceiling light wall switches; install new lighting fixtures at (____); install new exterior lighting; replace wall receptacles; install three-way switch; install smoke detectors; install exterior wall exhaust fan(s); etc. Most estimates must be based on per unit and lump sum projections.

    Required Work Items: The amp service must be upgraded to the greater of 100 amp or local code. Each sleeping area must be provided with a minimum of one approved, listed and labeled smoke detector installed adjacent to the sleeping area. Smoke detectors may be battery powered when installed in existing or rehabilitated Structures. However, where new construction is being added to an existing building, the smoke detector must receive its primary power from the building wiring, in conformance to local codes and ordinances.

29. **Heating**. Describe heating and air conditioning work to be performed, such as: install new forced warm air heater; install new hot water boiler; install automatic flow control valve; install temp control valve at boiler; install heat supply outlet in each room; install high performance items such as geothermal heating and cooling, wind energy systems or photovoltaic systems; etc. Most estimates must be based on per unit and lump sum projections.

    Required Work Items: If a new heating/cooling system is proposed, the Consultant must ensure that the contractor properly sizes the system. New heating systems, burners and air conditioning systems must be no greater than 15 percent oversized, except to satisfy the manufacturer's next closest nominal size.

30. **Insulation**. Describe insulation work to be performed, such as: install insulation in crawl space, (R-_____); install insulation batts in attic, (R- _____); install insulation batts in exterior walls, (R-____); etc. Most estimates must be based on square footage projections.

    Required improvements:
    - Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation.
    - Insulate ceiling areas where necessary.
    - Replacement heating, ventilating, and air conditioning systems supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.

31. **Cabinetry**. Describe cabinetry work to be performed, such as: install new base cabinets at (____); install new kitchen countertop; install new vanity at (____); replace vanity countertop at (____); etc. It may be necessary to provide cabinet

elevations to show proper placement of cabinets. Most estimates must be based on lump sum and linear footage projections.

32. **Appliances**. Describe new appliances to be installed, such as: install new range at (____); install new refrigerator at (____); install new dishwasher at (____); etc. Most estimates will involve per unit projections.

    Required Work Item: Appliances must be new to be included in the Mortgage. The Borrower may provide used appliances; however, the cost cannot be included in the Mortgage.

33. **Basements**. Describe basement work to be performed, such as: install minimum three feet thick concrete floor; cement parge basement walls; provide dry basement; install new sump pump; replace termite (or other wood-boring insect) damaged joists; etc. Most estimates must be based on lump sum, per unit, and square footage projections.

34. **Cleanup**. Describe cleanup work to be performed, such as: remove debris from property exterior; remove debris from property interior; broom clean all floors, clean all windows; clean all plumbing fixtures and appliances; rental for dumpster; etc. Most estimates must be based on lump sum projections.

35. **Miscellaneous**. Describe any other work to be performed, such as: demolition of existing house or garage; repair of detached outbuildings; move existing house onto mortgaged lot; installation of new foundation; landscaping; repair of swimming pools; etc.

f. Architectural Exhibit Review (04/10/2025)

The Consultant must prepare or obtain and review all applicable architectural exhibits. Architectural exhibits may include, but are not limited to, the following:

- well certification;
- septic certification;
- termite report (including all outbuildings);
- proposed plot plans for new additions;
- foundation certification by a licensed structural engineer if:
  - the existing Structure will be moved to a new foundation;
  - the Structure is being reconstructed on the existing foundation; or
  - the existing Structure will be elevated.
- cabinetry plans and elevations;
- construction exhibits to obtain a building permit for an addition;
- grading and drainage plans; or
- engineering and soil/geotechnical reports.

g. Preparing the Work Write-Up and Cost Estimate (09/14/2015)

The Consultant must prepare a Work Write-Up that identifies each Work Item. The Work Write-Up must be prepared in a categorical manner that addresses each of the 35 point checklist items. The Consultant must indicate which Work Items require permits.

The Consultant must also prepare a Cost Estimate for each Work Item in the Work Write-Up. The Cost Estimate must separately identify labor costs and itemize the cost of materials per Work Item. Work Item refers to a specific repair or improvement that will be performed. The Consultant must use Cost Estimates that are reasonable for the area in which the Property is located. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

i. Conformance with Minimum Property Requirements or Minimum Property Standards

The Work Write-Up must specifically identify whether the Work Item is required to meet MPS or MPR, will involve structural changes, or is a Borrower elective.

ii. Health and Safety

The Consultant must ensure that all health and safety concerns and any appraiser requirements are addressed in the Work Write-Up before the addition of any other Work Items.

h. Feasibility Study (09/14/2015)

If requested by the Borrower or Mortgagee, the Consultant must perform a Feasibility Study that consists of a preliminary inspection of the Property and an estimate of the materials and cost for the work that will be necessary to comply with HUD requirements.

i. Draw Request Inspection (09/14/2015)

The Consultant must perform draw request inspections when requested by the Mortgagee. The Consultant must ensure that all building permits are onsite for the work that was performed. The Consultant must ensure that the work:

- has been completed satisfactorily; and
- conforms to all local codes and ordinances.

j. Change Order (09/14/2015)

When requested by the Mortgagee or the Borrower, the Consultant must review the proposed changes or additions to the Work Write-Up. The Consultant must evaluate any costs and adjust other Work Items, if necessary, to complete the change order. The Consultant must provide all costs for labor and materials as a result of the change order on form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*. The proposed work per the change order is not permissible to proceed until approved by the Mortgagee.

k. Additional Required Documentation (09/14/2015)

The Consultant must provide the Mortgagee with the following documentation.

i. 203(k) Consultant's Certification

All Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent appraiser, plan reviewer, contractor, or subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C 1001, 1010, 1012; 31 U.S.C 3729, 3802).

_____

Consultant's Signature *Date*

ii. Consultant/Borrower Agreement

The Consultant and Borrower must sign a written agreement that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection" as detailed in the disclosure form HUD-92564-CN, *For Your Protection: Get a Home Inspection*.

iii. Inspections and Draw Requests

(A) Draw Request Form

At each draw inspection, the Consultant must complete form HUD-9746-A, *Draw Request Section 203(k),* to indicate completion of the repairs in compliance with the Work Write-Up and architectural exhibits. The Consultant must ensure all repairs meet all local codes and ordinances, including any required permits and inspections. The Consultant must ensure that both the Borrower and the contractor sign the form to certify that the work has been completed in a workmanlike manner before authorizing payments.

Generally, a release of funds may not be requested for materials that have been paid for but not yet installed.

(B) Exception

The Consultant may request a release of funds for:

- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; or
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

To request release of funds for these items, the Consultant must provide the Mortgagee with a copy of the contract and order with the draw request.

iv. Change Order Requests

The Consultant must complete a change order request on form HUD-92577 for contingency items and other changes that may increase or decrease the cost of rehabilitation or the value of the Property.

Work must be 100 percent complete on each change order item before the Consultant may authorize release of funds for the work noted on the change order. The Consultant must ensure that all repairs meet all local codes and ordinances, including any required permits and inspections.

B. TITLE II INSURED HOUSING PROGRAMS REVERSE MORTGAGES

The Title II Insured Housing Programs Home Equity Conversion Mortgages (HECM) Origination/Counseling Requirements through Post-closing and Endorsement sections in this *FHA Single Family Housing Policy Handbook (*Handbook 4000.1) provide the origination, property underwriting, financial assessment, closing, post-closing, and endorsement standards and procedures applicable to HECMs insured under Section 255 of Title II of the National Housing Act.

The Mortgagee must fully comply with all of the following standards and procedures in originating, underwriting the Property, conducting the financial assessment, and closing for obtaining Federal Housing Administration (FHA) mortgage insurance on all HECM transactions.

If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative program or product specific standards and procedures are explicitly stated in Programs and Products. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

1. Origination/Counseling Requirements

A HECM refers to a non-recourse, reverse mortgage that allows a HECM Borrower (Borrower) access to equity secured by the Principal Residence with no corresponding monthly mortgage payment.

a. Required Referral for HECM Counseling (04/29/2024)

i. Definition

HECM Borrower refers to the original Borrower under a Note and Mortgage. The term does not include successors or assigns of a Borrower.

Participating Agency refers to all housing counseling and intermediary organizations participating in HUD's Housing Counseling program, including HUD-approved agencies, and affiliates and branches of HUD-approved intermediaries, HUD-approved multi-state organizations, and state housing finance agencies.

ii. Standard

The Mortgagee must provide each prospective Borrower with a list of the names, addresses, and telephone numbers of the Participating Agencies eligible to provide HECM counseling that includes:

- all HUD-approved intermediaries listed on the HUD Intermediaries Providing HECM Origination Counseling Nationwide;
- Participating Agencies that provide telephone counseling; and

- at least five Participating Agencies located in the prospective Borrower's state or locality, including at least one local agency within a reasonable driving distance of the prospective Borrower's residence for face-to-face counseling.

In cases where HECM counseling is not available in the local area or state, Mortgagees must determine which Participating Agencies are most conveniently located to the Borrower and provide a listing of at least five Participating Agencies.

Mortgagees must inform Borrowers that it is the Borrower's responsibility to initiate communication with a Participating Agency to schedule counseling without the assistance of the Mortgagee.

If the prospective Borrower has already received HECM counseling and provides the Mortgagee with an unexpired, signed and dated form HUD-92902, *Certificate of HECM Counseling*, then the Mortgagee does not need to provide the prospective Borrower with the list of Participating Agencies.

iii. Required Documentation

The Mortgagee must enter the date the prospective Borrower received the list of Participating Agencies in the FHA Connection (FHAC) HECM Referral List Update screen prior to closing. If the Mortgagee did not provide the list of Participating Agencies because the prospective Borrower provided evidence of counseling, the Mortgagee must select the "Not Referred" box in FHAC.

b. Restrictions on Processing of Applications Before Completion of HECM Counseling (04/29/2024)

i. Definition

A Third-Party Originator (TPO) is an entity that originates FHA Mortgages for an FHA-approved Mortgagee acting as its sponsor. A TPO may be an FHA-approved Mortgagee or a non-FHA-approved entity.

ii. Standard

Before HECM counseling has been completed by all individuals required to receive counseling, the Mortgagee and/or sponsored TPO may only perform the functions listed below:

- accept the Fannie Mae Form 1009, *Residential Loan Application for Reverse Mortgages (RLARM)*, and provide required disclosures;
- lock in the Expected Average Mortgage Interest Rate (Expected Rate);
- explain the HECM program to the Borrower;
- discuss whether the Borrower is eligible for HECM financing;
- provide information regarding the fees and charges associated with the HECM product;

- describe the potential financial implications of a HECM for the Borrower;
- provide the Borrower with sample copies of the HECM Note, Mortgage, and loan agreement;
- order preliminary title search;
- order Automated Valuation Model (AVM); and
- order credit report to perform a preliminary credit review of the Borrower's financial obligations.

The Mortgagee and sponsored TPO may not collect any fee or the Borrower's banking account and credit card information before closing, or in connection with any function permitted above if the function is performed before receipt of a signed and dated *Certificate of HECM Counseling* for each individual required to receive counseling.

If the Borrower obtains the HECM, Mortgagees may only collect the cost of the credit report and the preliminary title search at loan closing; the cost of the AVM must be paid from the loan origination fee. If the HECM does not close, the Borrower may not be charged for any of these services.

c. Individuals Required to Receive HECM Counseling (04/29/2024)

i. Definitions

Non-Borrowing Spouse (NBS) refers to the spouse of a HECM Borrower who is also not a Borrower.

Eligible Non-Borrowing Spouse (Eligible NBS) refers to an NBS who meets all Qualifying Attributes for a Deferral Period.

Non-Borrowing Owner refers to someone who is:

- not a Borrower;
- not the spouse of a Borrower; and
- on the title as an owner to the Property that will serve as collateral for the HECM.

ii. Standard

The Mortgagee must ensure all Borrowers, NBSs, and Non-Borrowing Owners, with legal competency, have received HECM counseling from a counselor on the HECM Roster before processing the loan application or obtaining an FHA case number.

The Mortgagee must ensure HECM counseling is completed by an agent or attorney-in-fact that holds a durable Power of Attorney (POA) if they execute the *RLARM* or closing documents on behalf of a legally competent Borrower or Eligible NBS.

For any Borrower, NBS, or Non-Borrowing Owner lacking legal competency, HECM counseling must be completed by:

- the person holding a POA; or
- a court-appointed conservator or guardian.

For additional information on HECM Counseling for individuals with a Living Trust or Life Estate see Eligibility Requirements for Property Held in Living Trusts and Eligibility Requirements for Borrowers Holding Only Life Estates.

For additional information on HECM Counseling see HUD Handbook 7610.1.

d. *Certificate of HECM Counseling* (04/29/2024)

i. Standard

The HECM counselor must provide the Borrower, NBS, Non-Borrowing Owner, and legal representative with a *Certificate of HECM Counseling* once counseling is successfully completed. A *Certificate of HECM Counseling* must be signed and dated by the HECM counselor and the individual(s) required to receive counseling. The *Certificate of HECM Counseling* may bear the name of one or more individuals required to receive counseling.

(A) Handling of *Certificate of HECM Counseling*

Mortgagees may accept a copy of the signed and dated *Certificate of HECM Counseling*, from the HECM counselor or the individual(s) required to receive counseling that has been faxed, mailed, or electronically transmitted.

The Mortgagee may merge two separately signed and dated copies of the *Certificate of HECM Counseling* that are received via fax, mail, or electronically from the HECM counselor and/or the individual(s) required to receive counseling to create one document.

(B) Age of *Certificate of HECM Counseling*

The *Certificate of HECM Counseling* remains valid for a period of 180 Days from the date that counseling was completed.

(C) Restrictions on Beginning Loan Processing and Ordering the FHA Case Number

Mortgagees may not charge the Borrower any fees or proceed with processing the HECM loan application until they receive the *Certificate of HECM Counseling*, signed and dated by the HECM counselor and all individuals required to receive HECM counseling.

The Mortgagee and sponsored TPOs may only request corrections to the *Certificate of HECM Counseling* up until the HECM is endorsed. The Mortgagee must contact the HECM counselor regarding corrections to the *Certificate of HECM Counseling*.

Mortgagees may not request the FHA case number until they receive the *Certificate of HECM Counseling.* See Ordering Case Numbers for additional information.

ii. Required Documentation

The Mortgagee must obtain a copy of the *Certificate of HECM Counseling* signed and dated by each individual required to receive counseling and the HECM counselor.

e. Counseling Prohibited Practices (04/29/2024)

i. Definition

Counseling Prohibited Practices refers to steering, directing, recommending, or otherwise encouraging any individual to seek the services of any one particular Participating Agency or HECM counselor.

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, TPO, or other parties with an interest in the transaction.

ii. Prevention of Undue Influence in HECM Counseling

Interested Parties to the transaction must not:

- be present during HECM counseling; or
- provide Borrowers with advance copies of the HECM counselor's review questions with answers.

iii. Prohibited Steering and Payment of HECM Counseling Fees

The Mortgagee must not engage in Counseling Prohibited Practices.

The Mortgagee must not:

- discuss a Borrower's personal information, including the timing or scheduling of the counseling; or
- request information regarding the topics covered in a counseling session.

The Mortgagee must not pay a Participating Agency or HECM counselor, directly or indirectly, for HECM counseling services.

2. Origination/Processing

a. Applications and Disclosures (03/19/2025)

The Mortgagee must obtain a completed Fannie Mae Form 1009, *Residential Loan Application for Reverse Mortgages (RLARM),* from the Borrower and must capture additional required information using Parts IV, V, and VI of Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application (URLA)*, or an alternative form that captures the same information. In addition, the Mortgagee must provide all required federal

and state disclosures to begin the origination process. Regardless of the form used, Mortgagees must ensure that the Borrower certifies to the accuracy and completeness of the financial information. The Mortgagee is responsible for using the most recent version of all forms as of the date of completion of the form.

i. Contents of the HECM Application Package

The Mortgagee must maintain all information and documentation that is relevant to its approval decision in the HECM file. All information and documentation that is required in this Handbook 4000.1, and any incidental information or documentation related to those requirements, is relevant to the Mortgagee's approval decision.

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

(A) General Requirements

(1) Maximum Age of HECM Documents

(a) General Document Age

Documents used in the origination and financial assessment of a HECM may not be more than 120 Days old at the Disbursement Date, except for appraisals, which are subject to separate validity period requirements. Documents whose validity for financial assessment purposes is not affected by the passage of time, such as divorce decrees or Tax Returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting Days for periods provided in this Handbook 4000.1, day one is the Day after the effective or issue date of the document, whichever is later.

(b) Appraisal Validity

(i) **Initial Appraisal Validity**

The initial appraisal validity period is180 Days from the effective date of the appraisal report. See Ordering Appraisals.

(ii) **Appraisal Update**

Where the initial appraisal report will be more than 180 Days at Disbursement Date, an appraisal update may be performed to extend the appraisal validity period. See Ordering an Update to an Appraisal. Where

the initial appraisal is updated, the updated appraisal is valid for one year after the effective date of the initial appraisal report that is being updated.

(2) Handling of Documents

Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by or transmitted from or through unknown parties or Interested Parties. Mortgagees may not accept or use any Third Party Verifications (TPV) that have been handled by or transmitted from or through unknown parties, Interested Parties, or the Borrower.

Exception for Mortgagees and TPOs

The Mortgagee and TPO are permitted to handle documents relating to the employment, income, assets, credit, or occupancy of Borrowers.

(a) Information Sent to the Mortgagee Electronically

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

(b) Information Obtained via Internet

The Mortgagee must authenticate documents obtained from an internet website and examine portions of printouts downloaded from the internet.

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

(c) Confidentiality Policy for Credit Information

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

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), 15 U.S.C. §§ 1681a–1681x;
- the Right to Privacy Act, 5 U.S.C. § 552a;
- the Right to Financial Privacy Act, 12 U.S.C. §§ 3401–3423; and
- the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691a–1691f.

(3) Signature Requirements for All Application Forms

(a) Borrowers with Legal Competency

All Borrowers must sign and date the initial and final *RLARM*. All Borrowers must sign and date pages one and two of the initial form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application,* and sign and date the complete final form HUD-92900-A.

The Mortgagee may accept the *RLARM* and closing documents executed by a person holding a durable POA specifically designed to survive incapacity and avoid the need for court proceedings, provided the attorney-in-fact has specific authority to obligate the Borrower and has received HECM counseling by a Participating Agency.

(b) Borrowers Lacking Legal Competency

The Borrower may not sign and date the initial and final *RLARM.* The Borrower may not sign and date pages one and two of the initial form HUD-92900-A nor sign and date the complete final form HUD-92900-A.

The Mortgagee may accept any application form executed by:

- a court-appointed conservator or guardian with documented authority to obligate the Borrower; or
- a person holding a durable POA specifically designed to survive incapacity and avoid the need for court proceedings, provided the attorney-in-fact has specific authority to obligate the Borrower and has received HECM counseling by a Participating Agency.

Refer to Use of Power of Attorney at Closing for further guidance.

Refer to Use of Court-Appointed Conservator or Guardian for further guidance.

Prohibition on Documents Signed in Blank

Mortgagees are not permitted to require signatories to sign documents in blank, incomplete documents, or blank sheets of paper.

(4) Policy on Use of Electronic Signatures

(a) Definition

An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the contract or record. FHA does

not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

(b) Use of Electronic Signatures

An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for mortgage insurance, unless otherwise prohibited by law.

Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.

(c) Electronic Signature Performance Standards

The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, Mortgagees choosing to use electronic signatures must fully comply with the Performance Standards.

(i) The Electronic Signatures in Global and National Commerce Act (ESIGN Act) Compliance and Technology

A Mortgagee's electronic signature technology must comply with all requirements of the ESIGN Act, including those relating to disclosures, consent, signature, presentation, delivery, and retention, and with any state law applicable to the transaction.

(ii) Third Party Documents

Third Party Documents are those documents that are originated and signed outside of the control of the Mortgagee, such as the sales contract. FHA will accept electronic signatures on Third Party Documents included in the case binder for mortgage insurance endorsement in accordance with the ESIGN Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date must be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

*(iii)*Authorized Documents

Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the Mortgagee complies with the Performance Standards:

- **Mortgage Insurance Endorsement Documents:** Electronic signatures will be accepted on all documents requiring signatures included in the HECM case binder for mortgage insurance except

the Note. FHA will not accept electronic signatures on HECM Notes.

- **Servicing and Loss Mitigation Documentation:** Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for HECMs.
- **FHA Insurance Claim Documentation:** Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-27011, *Single Family Application for Insurance Benefits*.
- **HUD Real Estate Owned (REO) Documents:** Electronic signatures will be accepted on the HUD REO Sales Contract and related addenda.

(iv) Associating an Electronic Signature with the Authorized Document

The Mortgagee must ensure that the process for electronically signing authorized documents provides for the document to be presented to the signatory before an electronic signature is obtained. The Mortgagee must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.

(v) Intent to Sign

The Mortgagee must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the ESIGN Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes:

- identifying the purpose for the Borrower signing the electronic record;
- being reasonably certain that the Borrower knows which electronic record is being signed; and
- providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.

Intent to use an electronic signature may be established by, but is not limited to:

- an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature;
- an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or
- a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.

(vi) Single Use of Signature

Mortgagees must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.

This provision does not apply to documents signed by Mortgagee employees or Mortgagee contractors provided the Mortgagee obtains the consent of the individual for the use of their electronic signature. The Mortgagee must document the employee's or contractor's consent.

(vii) Authentication

Definition

Authentication refers to the process used to confirm a signer's identity as a party in a transaction.

Standard for Authentication

Before a Mortgagee submits the case for endorsement, the Mortgagee must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to:

- national commercial credit bureaus;
- commercially available data sources or services;
- state motor vehicle agencies; or
- government databases.

The Mortgagee must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.

(viii) Attribution

Definition

Attribution is the process of associating the identity of a signer with their signature.

Standard for Attribution

The Mortgagee must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.

The Mortgagee must use one of the following methods, or combinations of methods, to establish attribution:

- selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process;
- delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method;
- knowledge base authentication using "out of band/wallet" information;
- measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement, together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or
- public key cryptography.

***(ix)*Credential Loss Management**

Mortgagees must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable:

- maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password;
- ensuring that identification code and password issuances are periodically checked, recalled, or revised;
- following loss management procedures to electronically deauthorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls;
- using transaction safeguards to prevent unauthorized use of passwords or identification codes; or
- detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.

(d) Required Documentation and Integrity of Records

Mortgagees must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed. Mortgagees must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.

If changes to the document are made, the electronic process must be designed to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them.

The Mortgagee's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the Mortgagee or Holder as the controlling reference copy.

(B) HECM Application and Initial Supporting Documentation

(1) *RLARM* and *HUD Addendum to the Uniform Residential Loan Application*

Unless otherwise noted, *RLARM* and *HUD Addendum to Uniform Residential Loan Application* (form HUD-92900-A) refer to both initial and final applications.

The Mortgagee must obtain the Borrower's initial complete, signed *RLARM* and pages one and two of form HUD-92900-A before underwriting the HECM application.

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

(2) HECM Application Name Requirements

(a) Standard

All HECM applications must be executed in the legal names of all applicants.

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

(b) Required Documentation

The Mortgagee must include a statement that it has verified the Borrower's and Eligible NBS's identity using valid government-issued photo identification prior to closing of the HECM or the Mortgagee may choose to include a copy of such photo identification as documentation.

(C) Borrower, Eligible Non-Borrowing Spouse, and Other Non-Borrowing Household Member Authorizations

(1) Authorization to Verify Information

(a) Definition

Other Non-Borrowing Household Member refers to a person who occupies the Property to be secured with the HECM who is not the spouse of the Borrower and who is also not a Borrower.

(b) Standard

The Mortgagee must obtain the Borrower's authorization to verify the information needed to process the HECM application. The Mortgagee must obtain an Eligible NBS's and Other Non-Borrowing Household Member's consent and authorization to verify their SSN with the Social Security Administration (SSA) when it is necessary to process the HECM application using their income as a Compensating Factor or in reducing family size when determining if the Borrower meets the applicable standard for Residual Income.

(c) Required Documentation

For each individual, Borrower, Eligible NBS, and Other Non-Borrowing Household Member, authorization may be accomplished through a blanket authorization form.

(2) Form HUD-92900-A Part II: Borrower and Non-Borrowing Spouse Consent for Social Security Administration to Verify Social Security Number

The Mortgagee must obtain the Borrower's and NBS's signatures on Part II of form HUD-92900-A to verify the Borrower's and NBS's SSNs with the SSA. Mortgagees may attach an addendum the NBS in lieu of form HUD-92900-A which includes the required language in Part II of form HUD-92900-A.

(3) Tax Verification Form or Equivalent

The Mortgagee must obtain the Borrower's signature on the appropriate Internal Revenue Service (IRS) form to obtain Tax Returns directly from the IRS for all credit-qualifying Mortgages at the time the final *RLARM* is executed.

(D) Borrower's and Eligible Non-Borrowing Spouse's Authorization for Use of Information Protected under the Privacy Act

(1) Standard

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

(2) Required Documentation

The Mortgagee must obtain a signed statement from the Borrower and Eligible NBS that clearly expresses their consent for the use of the Borrower's and Eligible NBS's information.

ii. Disclosures and Legal Compliance

The Mortgagee must provide or ensure the Borrower is provided the following disclosures.

(A) HECM Required Disclosures

(1) Standard

The Mortgagee must provide Borrowers with a HECM Program Description disclosure describing all products, options, and features of the HECM program that FHA will insure, regardless of the products they offer. The Mortgagee must provide a disclosure that is written in clear, consistent, and concise language.

The Mortgagee must not mislead or otherwise cause a Borrower to believe that the HECM product contains any features or limitations that are inconsistent with FHA's requirements. Mortgagees are prohibited from seeking any agreement from the Borrower that is inconsistent with the ability of the Borrower to exercise their rights to the fullest extent permitted by law.

The Mortgagee's HECM Program Description disclosure must explain:

For all HECMs:

- the HECM is not assumable;
- the HECM is a non-recourse loan;
- the Property must be the Principal Residence:
  - the Borrower will be required to provide a written annual occupancy certification; and

  - the Borrower is responsible for notifying the Mortgagee of absences from the Property in excess of two months to avoid determinations that the Borrower's Principal Residence has changed;
- FHA insures fixed rate HECMs, as well as annual and monthly adjustable rate HECMs;
- the amount of funds made available to the Borrower is based on the age of the youngest Borrower or Eligible NBS;
- principal limit growth for all payment plan options;
  - the Principal Limit may increase monthly but there are restrictions for disbursing those funds during the First 12-Month Disbursement Period;
- the Initial Mortgage Insurance Premium (IMIP) payment methods and the formula used to calculate the IMIP amount;
- the costs of obtaining the HECM:
  - provide the Borrower with a Good Faith Estimate (GFE), giving the Borrower an estimate of closing costs and explaining which charges are required to obtain the HECM and which charges are not required to obtain the HECM, including the disclosure of third-party fees; and
  - inquire whether the HECM proceeds will be used to pay any cost associated with estate planners and inform the Borrower that such services are unnecessary to obtain a HECM and are ineligible for payment from HECM proceeds;
- the Borrower may incur the cost of a second appraisal, if required by the collateral risk assessment, which is used to determine whether additional support for the collateral value is required;
- the Property must meet FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) and the provisions for completing required repairs either prior to or after closing;
- insurance is required for all improvements on the Property that serves as collateral for the HECM, whether in existence at the time of origination or subsequently erected, against any hazards, casualties, and contingencies, including fire and flood, for which the Mortgagee requires insurance. Such insurance must be maintained in the amount and for the period of time that is necessary to protect the Mortgagee's investment;
- the Borrower and NBS, if any, will be required to disclose and certify their marital status at closing:
  - an NBS may be eligible for the deferral of the Due and Payable status upon the death of the last surviving Borrower if the NBS meets and continues to meet the Qualifying Attributes or the NBS continues to reside in the home as their Principal Residence despite the Borrower remaining in a health care facility for a period that exceeds 12 consecutive months; and
  - an NBS and Non-Borrowing Owners must sign the Mortgage as Borrowers evidencing their commitment of the Property as security for the Mortgage, and sign a certification consenting to their spouse or

other Borrower obtaining the HECM and acknowledging the terms and conditions of the Mortgage;
- repayment and prepayment features; and
- the Borrower's rights, obligations, and remedies with respect to temporary absences from the home, late payments, and payment default by the Mortgagee and all conditions requiring satisfaction of the HECM.

For fixed rate HECMs, Mortgagees must also explain:
- the Borrower is limited to the single lump sum payment option, which provides a single Disbursement at closing with no opportunity for future Disbursements to or on behalf of the Borrower, except as allowed from a Set-Aside established at closing; and
- Disbursement of HECM proceeds during the First 12-Month Disbursement Period is limited to the amount of the Borrower's Advance, plus Disbursements from a Set-Aside that was established at closing.

For adjustable rate HECMs:
- the Borrower may choose from five, flexible payment options, allowing for future Disbursements, and the Borrower may change payment plans to one of the other available payment options at any time provided funds are available;
- the frequency of annual and monthly adjustable rate changes; and
- Disbursement of HECM proceeds during the First 12-Month Disbursement Period is subject to an Initial Disbursement Limit.

(2) Required Documentation

At initial application, the Mortgagee must obtain the HECM Program Description disclosure signed and dated by the Borrower.

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

The Mortgagee is required to comply with all federal, state, and local laws, rules, and requirements applicable to the HECM transaction, including all applicable disclosure requirements and the requirements of the Consumer Financial Protection Bureau (CFPB), including those related to:
- Truth in Lending Act (TILA); and
- Real Estate Settlement Procedures Act (RESPA).

(C) Nondiscrimination Policy

The Mortgagee must fully comply with all applicable provisions of:
- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act, 15 U.S.C. §§ 1681–1681x; and
- the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691–1691f.

The Mortgagee must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, national origin, familial status, disability, marital status, source of income of the Borrower, or location of the Property.

iii. Application Document Processing

(A) Mortgagee Responsibilities

The Mortgagee must use FHAC to order the FHA case number and perform any associated tasks. The Mortgagee must also use the Home Equity Reverse Mortgage Information Technology (HERMIT) to remit mortgage insurance premiums and to perform all loan servicing activities. For a Single-Unit Approval, the Mortgagee must follow the Single-Unit Approval case number assignment process. The Mortgagee may use nonemployees in connection with its origination of FHA-insured HECMs only as described below. The Mortgagee ultimately remains responsible for the quality of the HECM and for strict compliance with all applicable FHA requirements, regardless of the Mortgagee's relationship to the person or Affiliate performing any particular service or task.

(1) Sponsored Third-Party Originator

The Mortgagee is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only FHA-approved Mortgagees acting in the capacity of a sponsored TPO may have direct access to FHAC.

(2) Other Contract Service Providers

The Mortgagee may utilize Eligible Contractors to perform the following administrative and clerical functions: typing of mortgage documents, mailing out and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping HECMs to investors.

(3) Excluded Parties

The Mortgagee may not contract with Affiliates or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. The Mortgagee must ensure that no sponsored TPO or contractor engages such an Affiliate or person to perform any function relating to the origination of a HECM. The Mortgagee must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(B) Initial Document Processing

The Mortgagee begins processing the HECM by obtaining an initial *RLARM* and Part III of form HUD-92900-A.

(1) Ordering Case Numbers

The Mortgagee must use FHAC to order FHA case numbers. A case number can be obtained only when the Mortgagee has an active HECM application for the subject Borrower and Property.

In order to obtain a case number, the Mortgagee must:

- provide the subject Borrower's name, SSN, and date of birth;
- provide the property address;
- certify that the Mortgagee has an active HECM application for the subject Borrower and Property; and
- obtain a copy of the *Certificate of HECM Counseling* for each individual required to receive counseling.

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

The Mortgagee must order a case number prior to the expiration of the *Certificate of HECM Counseling* for the last Borrower or legal representative who is required to receive counseling. The Mortgagee is not required to close on the HECM prior to the expiration of the *Certificate of HECM Counseling*.

(a) Automated Data Processing Codes

FHA Automated Data Processing (ADP) Codes are derived from the section of the National Housing Act under which the HECM is to be insured. The Mortgagee must select the correct ADP Code for each HECM in FHAC.

(b) Case Numbers on Sponsored Originations

The Mortgagee will not be able to order case numbers for sponsored originations unless the sponsored TPO has been registered in FHAC.

(c) Certificate of HECM Counseling Identification Number

The Mortgagee must enter the HECM counseling certificate identification number belonging to the last Borrower or legal representative counseled when there are multiple certificates. See Individuals Required to Receive HECM Counseling.

(2) Holds Tracking

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

(3) Canceling and Reinstating Case Numbers

(a) Canceling a Case Number

The Mortgagee may request cancellation of a case number by submitting a request to FHAC.

(b) Automatic Case Number Cancellations

Case numbers without an appraisal logged into FHAC are automatically canceled after six months if one of the following actions is not performed as a last action:

- form HUD-92900.4, *Firm Commitment*, issued by FHA;
- insurance application received and subsequent updates; or
- Notices of Return (NOR) or resubmissions.

Cases with an appraisal logged are not subject to automatic cancellation for one year from the appraisal effective date.

Updates to the Borrower's name or property address, an appraisal update, or a transmission of the IMIP do not constitute Last Action Taken.

(c) Reinstatement of Case Numbers

The Mortgagee may request reinstatement of canceled case numbers by submitting a request to FHAC.

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

(4) Transferring Case Numbers

(a) Requirements for the Transferring Mortgagee

The original Mortgagee must assign the case number to the new Mortgagee using the Case Transfer function in FHAC immediately upon the Borrower's request.

The original Mortgagee may provide processing documents but is not required to do so.

The original Mortgagee may not charge the Borrower for the transfer of any documents, but the original Mortgagee may negotiate a fee with the new Mortgagee for providing the processing documents.

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

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

(5) Preliminary Review of Borrower Eligibility Requirements

Before any charges may be incurred by the prospective Borrower, the Mortgagee must preliminarily review whether:

- the Borrower will be at least 62 years of age by closing;
- the Borrower has any unresolved delinquent Federal Debt – see Delinquent Federal Tax Debt and Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt; and
- the Property securing the HECM will be the Borrower's Principal Residence.

If, after a review of these requirements, the Mortgagee finds that the Borrower is ineligible, the Mortgagee must notify the Borrower in writing of their ineligibility and cease processing of the application. The Mortgagee can charge the Borrower for any services performed after this determination.

(6) Ordering Title Commitments

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

(7) Ordering Appraisals

The Mortgagee must order a new appraisal for each HECM case number assignment and may not reuse an appraisal that was performed under another active or endorsed case number, even if the prior appraisal is not yet more than 180 Days old.

(a) Appraisal Integrity

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

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

The Mortgagee must ensure that FHA is listed on the appraisal report as an intended user of the appraisal.

(b) Selection of a Qualified Appraiser

The Mortgagee must order an appraisal from an Appraiser who is listed on the FHA Appraiser Roster and is qualified and knowledgeable in the specific market area in which the Property is located. The Mortgagee must evaluate the Appraiser's education, training, and actual field experience to determine whether the Appraiser has sufficient qualifications to perform the appraisal before assignment.

The Mortgagee may not discriminate on the basis of race, color, religion, sex, national origin, familial status, disability, or marital status in the selection of an Appraiser.

(c) Use of Appraisal Management Company or Third-Party Contractors

The Mortgagee may engage an Appraisal Management Company (AMC) to perform services related to the obtaining of an appraisal. The Mortgagee remains responsible for the acts of its AMC or third-party contractors.

The Mortgagee may not pay the AMC and other third-party contractors fees in excess of what is customary and reasonable for such services in the market area where the Property being appraised is located. Any management fees must be for actual services related to the ordering, process, or review of an appraisal for FHA financing.

(d) Appraiser Independence

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

The Mortgagee, or any third party specifically authorized by the Mortgagee, is responsible for selecting, retaining, and providing for payment of all compensation to the Appraiser. The Mortgagee or authorized third party may not allow the Appraiser to be selected, retained, managed, or compensated by a mortgage broker or any member of a Mortgagee's or authorized third party's staff who is compensated on a commission basis tied to the successful completion of a HECM, or who is not independent of the Mortgagee's HECM production staff or processes or the authorized third party's staff or processes.

The Mortgagee must ensure that it does not:

- compensate the Appraiser at a rate that is not commensurate in the market area of the Property being appraised with the assignment type, complexity, and scope of work required for the appraisal services performed;
- withhold or threaten to withhold timely payment or partial payment for an appraisal report;
- prohibit the Appraiser from recording the fee paid for the performance of the appraisal in the appraisal report;
- condition the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- provide to the Appraiser, appraisal company, AMC or any entity or person related to the Appraiser, appraisal company or AMC, stock or other financial or nonfinancial benefits;
- order, obtain, use, or pay for a second or subsequent appraisal or AVM in connection with a HECM transaction unless:
  - required by FHA's collateral risk assessment;
  - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such belief is clearly and appropriately noted in the HECM file; or
  - such appraisal or AVM was completed pursuant to written, preestablished bona fide pre- or post-Disbursement appraisal review or quality control process or underwriting guidelines and the Mortgagee adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value;
- withhold or threaten to withhold future business from an Appraiser, or demote or terminate or threaten to demote or terminate an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- make expressed or implied promises of future business, promotions, or increased compensation for an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- allow the removal of an Appraiser from a list of qualified Appraisers or the addition of an Appraiser to an exclusionary list of qualified

Appraisers, used by any entity, without prompt written notice to such Appraiser. The notice must include written evidence of the Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior, or other substantive reason for removal;

- request that an Appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- provide to the Appraiser an anticipated, estimated, encouraged, or desired value for a subject Property or a proposed, or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase and any addendum must be provided; or
- perform any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, or impartiality, or that violates any applicable law, regulation, or requirement.

(e) Additional Requirements When Ordering an Appraisal

The Mortgagee must provide to the selected Appraiser the FHA case number, land lease, surveys, and other legal documents contained in the HECM file necessary to analyze the Property.

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

Where the Mortgagee determines that the Property is subject to a PACE obligation, it must notify the Appraiser that the PACE obligation will be paid off as a condition of loan approval.

(8) Appraisal Effective Date

(a) Standard

The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal was ordered for conventional financing, or other government-guaranteed loan purposes and was performed by an FHA Roster Appraiser, or the previous FHA case number was canceled.

The Mortgagee must ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions as detailed in this Handbook 4000.1

and the Appraisal Report and Data Delivery Guide. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the HECM. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.

(b) Required Documentation

The Mortgagee must retain documentation in the case binder substantiating conversion of the Mortgage to FHA.

(9) Transferring Existing Appraisals

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

The second Mortgagee may not request the Appraiser to readdress the appraisal. If the second Mortgagee finds deficiencies in the appraisal, the Mortgagee must order a new appraisal.

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

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

(10) Ordering Second Appraisal

(a) Collateral Risk Assessment

***(i)* Definition**

Closing Date refers to the date on which the Borrower signs the Note.

Collateral Risk Assessment refers to FHA's automated process that is used to establish the appraised value of the property that will serve as collateral for the HECM.

Electronic Appraisal Delivery (EAD) refers to a web-based platform where Mortgagees or their designated technology service providers electronically deliver FHA Single Family appraisal reports prior to endorsement.

(ii) Standard

If FHA's collateral risk assessment determines a second appraisal is required, the Mortgagee must order the second appraisal from an Appraiser not associated with the same appraisal company as the first appraisal. The Mortgagee must allot adequate time prior to the planned Closing Date to allow for obtaining a second appraisal, if required.

The cost of the second appraisal is eligible to be financed as part of the closing costs.

(b) Ordering Second Appraisal

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

(i) Second Appraisal by Original Mortgagee

A second appraisal may only be ordered if:

- FHA's collateral risk assessment determines a second appraisal is required. The cost of the second appraisal may be financed as part of the closing costs; or
- the Direct Endorsement (DE) underwriter (underwriter) determines the first appraisal is materially deficient and the Appraiser is unable to resolve or uncooperative in resolving the deficiency. The Mortgagee must fully document the deficiency and status of the appraisal in the mortgage file. The Mortgagee must pay for the second appraisal.

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

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

conclusions compromise the integrity, accuracy, and/or thoroughness of the appraisal submitted to the client.

(ii) Second Appraisal by Second Mortgagee

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

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

(iii) Use of Second Appraisal

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

(iv) Required Documentation

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

(11) Ordering an Update to an Appraisal

The Mortgagee may only order an update if (1) it is a Mortgagee listed as an intended user of the original appraisal or (2) it has received permission from the original client and the Appraiser. The Appraiser incorporates the original appraisal report being updated by attachment rather than by reference per Advisory Opinion 3 of the USPAP.

The Mortgagee may use an appraisal update only if:

- it is performed by an FHA Appraiser who is currently in good standing on the FHA Appraiser Roster;
  - if a substitute Appraiser is used due to the lack of the original Appraiser availability, the substitute Appraiser must state they concur with the analysis and conclusions in the original appraisal report, and the Mortgagee must document in the case binder why the original Appraiser was not used;
- the Property has not declined in value;

- the building improvements that contribute value to the Property can be observed from the street or a public way;
- the Property meets Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) based on the original appraisal conditions;
- the appraisal update was performed by the Appraiser within one year from the effective date of the initial appraisal being updated; and
- the appraisal update is performed before the Disbursement Date.

(12) Appraisal Delivery – Electronic Appraisal Delivery

(a) Definition

The Electronic Appraisal Delivery (EAD) refers to a web-based platform where Mortgagees or their designated technology service providers electronically deliver FHA Single Family appraisal reports prior to endorsement.

(b) Standard

Mortgagees or their designated technology service providers must deliver appraisals through FHA's EAD portal.

(c) Required Documentation

Appraisals submitted through FHA's EAD portal are the appraisals required for endorsement.

b. General HECM Insurance Eligibility (11/10/2026)

i. HECM Purpose

FHA insures mortgages secured by HECM Properties under section 255 of the National Housing Act. The intent of the HECM program is to provide elderly homeowners the option of using the equity in their homes to address economic hardship caused by the increasing costs of health, housing, and subsistence needs at a time of reduced income.

(A) HECM Traditional

HECM Traditional refers to a transaction where a Borrower with legal title, leasehold interest, or possessory interest obtains a HECM to access equity in their current Principal Residence.

(B) HECM for Purchase

HECM for Purchase refers to a transaction where the Borrower uses the HECM to finance the purchase of an existing one- to four-unit residence where the Borrower will occupy one unit as their Principal Residence.

The Borrower may use a HECM for Purchase transaction to satisfy an outstanding payment obligation associated with a land contract, contract for deed, or other similar purchase arrangement that will ensure the Property will meet FHA's title requirements. For additional requirements that are applicable to a HECM for Purchase transaction, see HECM for Purchase.

(C) HECM-to-HECM Refinance

HECM-to-HECM Refinance (HECM Refinance) refers to a new HECM where the proceeds will be used to pay off the property indebtedness of the current HECM and any existing eligible lien. For additional requirements that are applicable to a Refinance transaction, see HECM Refinance.

ii. Borrower Eligibility

(A) General Borrower Eligibility Requirements

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

(1) Minimum Age Requirement

All Borrowers must be at least 62 years of age as of the Closing Date. There is no maximum age limit for a Borrower.

(2) Principal Residence

(a) Definition

A Non-Borrowing Spouse (NBS) refers to the spouse of a HECM Borrower who is also not a Borrower.

Eligible Non-Borrowing Spouse (NBS) refers to an NBS who meets all Qualifying Attributes for a Deferral Period.

Principal Residence refers to the dwelling where the Borrower and, if applicable, an NBS maintain their permanent place of abode, and typically spend the majority of the calendar year. A person may have only one Principal Residence at any one time and the Property is considered to be the Principal Residence:

- of any Borrower who is temporarily in a health care institution provided the Borrower's confinement to a health care institution does not exceed 12 consecutive months;
- of any NBS who is temporarily in a health care institution, as long as the Property is the Principal Residence of their Borrower spouse, who physically resides in the Property;
- of any NBS who occupies the Property as their Principal Residence, when the Borrower resides in a health care institution for a length of time; and
- during a Deferral Period of the NBS, who is temporarily in a health care institution, provided the Eligible NBS physically occupied the Property immediately prior to entering the health care institution and such confinement does not exceed 12 consecutive months. See Mortgagee Optional Election Assignment for more information.

(b) Standard

The Property must be the Principal Residence of each Borrower and a Borrower may have only one Principal Residence at any one time.

(3) Citizenship and Immigration Status

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

(4) Residency Requirements

The Mortgagee must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable documentation. A Social Security card is not sufficient to prove immigration or work status. The following categories of individuals are eligible for FHA-insured financing in accordance with the requirements set forth below:

(a) Permanent Residents

(i) Standard

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

(ii) Required Documentation

The HECM file must include evidence of lawful permanent residence and indicate that the Borrower is a lawful permanent resident on the *RLARM*.

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

(b) Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau

(i) Standard

A Borrower with citizenship in the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

(ii) Required Documentation

For Borrowers who are citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau, the HECM file must include evidence of such citizenship.

(5) Borrower Ownership and Obligation Requirements

To be eligible, all Borrowers must hold title, leasehold interest, or possessory interest to the Property in their own name or in the name of a living trust at closing, be obligated on the Note or credit instrument, and sign all security instruments.

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

(a) Eligibility Requirements for Property Held in Living Trusts

(i) Definitions

Living Trust refers to a type of trust that is created and takes effect during the creator's lifetime.

Trustee refers to the person charged with the administration of the Living Trust.

Primary Beneficiary refers to a person that is first in line to receive the benefits of the Living Trust.

Contingent Beneficiary refers to a person who is entitled to the benefits of the trust only upon the death of the primary beneficiary.

(ii) Standard

The Mortgagee may originate a HECM that is held by a Living Trust, either revocable or irrevocable, provided the following requirements are met:

- primary beneficiaries of the Living Trust are 62 years of age as of the Closing Date;
- primary beneficiaries attend and complete HECM counseling;
- primary beneficiaries must be an eligible Borrower;
- primary beneficiaries occupy the subject Property as their Principal Residence until the mortgage lien is released or will occupy the subject Property as their Principal Residence within 60 Days of Closing for a HECM for Purchase transaction;
- new beneficiaries must not be added to the Living Trust;
- primary beneficiaries must sign the loan agreement;
- the trustee and primary beneficiaries must sign the Note;
- the Mortgage, and other legal documents, are signed by all parties necessary to create a valid first Mortgage and second Mortgage, if applicable, which may include:
  - the trustee; and
  - primary and contingent beneficiaries; and
- the Mortgagee has determined that the Living Trust:
  - is valid and enforceable;
  - provides each beneficiary with a legal right to occupy the Property for the remainder of their life; and
  - provides for a Notice to the Mortgagee of any changes to the trust, including occupancy status of the Property, or any transfer of beneficial interest in the Property.

Contingent beneficiaries do not need to meet eligible Borrower requirements and do not need to attend HECM counseling unless the contingent beneficiary is an individual otherwise required to receive counseling, e.g., an Eligible or Ineligible NBS or Non-Borrowing Owner.

The trustee is not required to attend HECM counseling unless the trustee is also a primary beneficiary or an individual otherwise required to receive counseling, e.g., an Eligible or Ineligible NBS or Non-Borrowing Owner.

(iii) Living Trusts and Security Instruments

The name of the Living Trust must appear on the security instrument, such as the Mortgage, deed of trust, or security deed.

The name of the Borrower must appear on the security instrument when required to create a valid lien under state law. The name of the Borrower

must also be the same name on the Note and the trust or trust documentation.

The name of the Borrower is not required to appear on the property deed or title.

***(iv)*Required Documentation**

The Mortgagee must obtain a copy of the trust agreement or the Declaration of Trust to ensure all Living Trust eligibility requirements are met.

(b) Transfer of the Property into a Living Trust

The Borrower under an insured HECM may transfer the Property to a Living Trust without causing the Mortgage to become Due and Payable if the Mortgagee finds that the Living Trust meets all Eligibility Requirements for Property Held in Living Trusts that would have applied if the trust owned the Property at Closing.

The Mortgagee may require the trust to formally assume the Borrower's obligation to repay the debt as stated in the Note if considered advisable to avoid difficulty in enforcement of the Note and Mortgage.

(c) Transferring of the Property from a Living Trust

If the Living Trust is terminated or the Property is otherwise transferred from an eligible trust that is holding the Property, the Mortgage will not become Due and Payable, provided that one or more of the original Borrowers:

- continue to occupy the Property as a Principal Residence; and
- continue to retain title to the Property in Fee Simple or on a Leasehold Interest.

(d) Eligibility Requirements for Borrowers Holding Only Life Estates

***(i)* Standard**

A Borrower who holds only a life estate is eligible for a HECM, only if all holders of any reversionary or remainder interest will also execute the Mortgage and attend HECM counseling.

***(ii)* Required Documentation**

For life estates, the Mortgagee must obtain a copy of the document granting the Borrower a life estate.

(6) Marital Status

The Mortgagee must require all Borrowers to state whether they are legally married at the time of initial application and confirm this information at closing by signing the appropriate certification.

(7) Social Security Number

(a) Standard

Each Borrower must provide evidence of their valid SSN to the Mortgagee.

Exception

Individuals employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD are not required to provide an SSN.

(b) Required Documentation

The Mortgagee must:

- validate and document an SSN for each Borrower by:
  - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through FHAC; and
  - examining the Borrower's original pay stubs, IRS Form W-2s, *Wage and Tax Statement*, valid Tax Returns obtained directly from the IRS; or other document relied upon to process the HECM; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during HECM processing using a service provider to verify the SSN with the SSA.

(8) Borrower Minimum Decision Credit Score

(a) Definition

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

(b) Standard

There is no MDCS for a HECM. Credit scores are not a criterion for processing or evaluating a HECM.

(9) Delinquent FHA-insured Mortgages

(a) Principal Residences

Borrowers delinquent on an FHA-insured Mortgage on their Principal Residence must pay off the Delinquent Mortgage prior to or at closing of the HECM.

(b) Other FHA-Insured Mortgages

Borrowers delinquent on an FHA-insured Mortgage that is not their Principal Residence are ineligible for a new FHA-insured HECM unless the delinquency is resolved.

(10) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

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

The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's monthly expenses.

Delinquent federal debt or tax liens may also be paid off prior to obtaining a HECM using the Borrower's own funds or paid off as a Mandatory Obligation at closing.

(b) Verification

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

(c) Required Documentation

The Mortgagee must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable. The Mortgagee must include documentation from the IRS evidencing the payoff of the tax lien, if applicable.

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

(a) Definition

Judgment refers to any debt or monetary liability of the Borrower created by a court or other adjudicating body.

(b) Standard

Mortgagees are prohibited from processing an application for an FHA-insured HECM for Borrowers with delinquent federal non-tax debt, including deficiency Judgments and other debt associated with past FHA-insured Mortgages. Mortgagees must suspend processing of the application until the debt has been resolved with the creditor agency. Mortgagees are required to determine whether the Borrowers have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

(c) Verification

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

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured HECM until the Borrower resolves the debt with the creditor agency.

The Mortgagee may not deny a HECM solely based on the CAIVRS information that has not been verified by the Mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Mortgagee may continue to process the HECM application.

(d) Resolution

For a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

(e) Required Documentation

The Mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

(12) Valid First and Second Liens

The Mortgagee must ensure that the mortgaged Property will be free and clear of all liens or that any permissible liens are subordinated to the first HECM lien and any second lien held by the Commissioner. The Mortgagee must ensure there are no restrictions on conveyance, unless such restrictions are permitted by FHA regulations.

An existing lien of record, unless prohibited, may be subordinated to the first HECM lien and any second lien held by the Commissioner if the following two conditions are satisfied:

- the subordinate lien does not intervene between the first and second HECM liens; and
- the subordinate lien must not arise or be made in connection with obtaining HECM financing. FHA regulations at 24 CFR 206.32 provide that there must not be any outstanding or unpaid obligations incurred by the Borrower in connection with the HECM transaction.

(a) Tax Liens

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the Borrower has made timely scheduled payments for at least three consecutive months. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. Except for federal tax liens, the lien holder must subordinate the tax lien to the FHA-insured HECM. For more on federal tax liens, see Delinquent Federal Tax Debt.

(b) Court Judgment Liens

Liens against the Property resulting from outstanding court Judgments must be paid in full prior to or at closing.

(c) Secondary Financing

A pre-existing Mortgage lien securing secondary financing that was provided by a Governmental Entity (federal, state, or local) or by an organization acting on behalf of a Governmental Entity must be paid in full prior to closing. If the lien is in connection with a real estate tax deferral program, then see Real Estate Tax Deferral Program.

(d) Real Estate Tax Deferral Program

(i) Definitions

Real Estate Tax Deferral Program refers to a taxing authority deferring the payment of property taxes, i.e., liability for taxes remains, but payment is deferred until a certain point in the future.

(ii) Standard

The Mortgagee must ensure the Borrower is not a participant in a real estate tax deferral program unless such liens securing payment of deferred taxes are subordinate to the first and second HECM liens, and:

- the real estate tax deferral period will be in place until the death of the Borrower or the sale of the Property, whichever occurs first; and
- a lien superior to the first and second HECM liens will not be created upon the termination of the real estate tax deferral period resulting in any obligation for the deferred tax obligation to be repaid at the death or move-out of the Borrower, or any other maturity event.

(iii) Required Documentation

The Mortgagee must obtain evidence documenting the deferred taxes and lien priority.

(B) General Non-Borrowing Spouse Requirements

(1) Definitions

An Ineligible Non-Borrowing Spouse refers to an NBS who does not meet all Qualifying Attributes for a Deferral Period.

Qualifying Attributes refer to the criteria an NBS must meet to be eligible for the Deferral Period. An Eligible NBS must:

- have been the spouse of a HECM Borrower at the time of closing and have remained the spouse of such HECM Borrower for the duration of the HECM Borrower's lifetime;

- have been properly disclosed to the Mortgagee at origination and specifically named as an NBS in the HECM documents; and
- have occupied, and continue to occupy, the Property securing the HECM as the Principal Residence of the NBS.

A Deferral Period refers to the period of time following the death of the last surviving Borrower for a HECM with an FHA case number assigned on or after August 4, 2014, during which the Due and Payable status of a HECM is deferred for an Eligible NBS or Eligible Surviving NBS provided that the Qualifying Attributes and all other FHA requirements continue to be satisfied.

(2) Marital Status

(a) Standard

At initial application, the Mortgagee must:

- verify the name and age of any NBS on the Borrower's application; and
- determine if the spouse is an Eligible or Ineligible NBS.

An Eligible NBS may not elect to be ineligible for the Deferral Period. An Eligible NBS becomes an Ineligible NBS and ineligible for the Deferral Period when any of the Qualifying Attributes cease to be met.

(b) Required Documentation

The Mortgagee must obtain the following:

- a marriage certificate, legal opinion certifying the validity of the marriage, or other evidence sufficient to establish the legal validity of the marriage;
- the NBS's SSN; and
- either the Ineligible NBS or Eligible NBS certification.

(3) Social Security Number

(a) Standard

Each NBS must have a valid SSN.

(b) Required Documentation

The Mortgagee must:

- validate and document an SSN for each NBS by:
  - entering the NBS's name, date of birth, and SSN in the Borrower/address validation screen through FHAC; and

- examining the Eligible NBS's original pay stubs, IRS Form W-2s, valid Tax Returns obtained directly from the IRS, or other document relied upon to process the HECM; and
- resolve any inconsistencies or multiple SSNs for individual Eligible NBS that are revealed during HECM processing using a service provider to verify the SSN with the SSA.

Exception

Individuals employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD are not required to provide an SSN.

(4) Non-Borrowing Spouse Age Limits

The NBS does not have to be 62 years old for an eligible Borrower to obtain a HECM.

(5) Principal Residence

The Mortgagee must determine whether the Property serves as the Principal Residence of each NBS.

(C) Excluded Parties

The Mortgagee must establish that the Borrower and Eligible NBS are not Excluded Parties and document the determination as required below.

(1) Borrower and Eligible NBS

(a) Standard

A Borrower and Eligible NBS are not eligible to participate in FHA-insured mortgage transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.

(b) Required Documentation

The Mortgagee must check the HUD LDP List to confirm the Borrower's and Eligible NBS' eligibility to participate in an FHA-insured mortgage transaction.

The Mortgagee must check SAM and follow appropriate procedures defined by that system to confirm eligibility for participation.

The Mortgagee must print the results of the check of the HUD LDP and SAM to confirm eligibility of participation in the HECM program.

(2) Other Parties to the Transaction

(a) Standard

A HECM is not eligible for FHA insurance if anyone participating in the HECM transaction is listed on HUD's LDP List or in SAM as being excluded from participation in HUD transactions. This may include but is not limited to:

- seller (except where selling the Principal Residence)
- listing and selling real estate agent
- loan originator
- loan processor
- underwriter
- Appraiser
- Closing Agent
- title company

(b) Required Documentation

The Mortgagee must check the HUD LDP List and SAM and follow appropriate procedures defined by that system to confirm eligibility for all participants involved in the transaction.

(D) Limitation on Number of HECMs

(1) Standard

A Borrower with an existing HECM is eligible to obtain a new HECM if the Borrower provides legal documentation evidencing release of the Borrower's financial obligation to satisfy the existing HECM.

A Borrower with an existing HECM is eligible to use the HECM for Purchase program to obtain a new Principal Residence if they pay off the existing HECM before the HECM for Purchase transaction is insured.

(2) Required Documentation

The Borrower must provide a copy of:

- a final divorce decree or court order evidencing the vacating Borrower is released from their financial obligation to satisfy the indebtedness of the existing HECM and recorded quit claim deed or other equivalent; or
- evidence that the existing HECM outstanding balance is repaid in full, such as:
  - a copy of the fully executed Closing Disclosure, HUD-1 Settlement Statement or similar legal document;
  - a payoff statement and copy of the canceled check or its equivalent;

- a credit report with a zero balance; or
- a copy of the canceled check or its equivalent and a copy of the lien release.

iii. Property Eligibility and Acceptability Criteria

The Property must meet FHA's definition of a HECM Property.

In order to obtain FHA-insured financing, the Property must meet the eligibility criteria in this section.

(A) General Property Eligibility

(1) Definitions

HECM Property refers to a Property that is either Existing Construction or New Construction which will serve as collateral for the HECM.

Existing Construction refers to a Property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

(2) Location of HECM Property

The HECM Property must be located within a state, District of Columbia, Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

(3) Hazard Insurance

The Borrower must insure all improvements on the HECM Property, whether in existence at the time of origination or subsequently erected, against any hazards, casualties, and contingencies, including fire and flood, for which the Mortgagee requires insurance. Hazard Insurance must be maintained in the amount and for

the period of time that is necessary to protect the Mortgagee's investment. Refer to the Condominium product sheet for additional insurance requirements.

(4) Special Flood Hazard Areas

The Mortgagee must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Mortgagee must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone (zones beginning with the letter A or the letter V (a Coastal High Hazard Area)), and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within the Coastal Barrier Resources System (CBRS).

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the NFIP and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(a) Flood Insurance

(i) Definitions

Flood Insurance refers to insurance provided by an NFIP or a Private Flood Insurance (PFI) policy that covers physical damage by floods.

An NFIP policy refers to insurance managed by the Federal Emergency Management Agency (FEMA) that covers physical damage by floods.

A PFI policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

(ii) Standard

Eligible Properties

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

Required Flood Insurance Coverage

For Properties located within an SFHA, Flood Insurance must be maintained for the life of the HECM in an amount at least equal to the lowest of the following:

- 100 percent replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost;
- the maximum amount of NFIP insurance available with respect to the particular type of Property; or
- the outstanding principal balance of the Mortgage.

Where the outstanding principal balance of the Mortgage is used to determine the amount of Flood Insurance coverage, Flood insurance must be adjusted each renewal cycle to cover an amount at least equal to the outstanding principal balance at the end of the insurance coverage period.

Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of Property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar non-applicability provisions, as under a standard Flood Insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;

- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(iii) Private Flood Insurance Policy Compliance Aid

Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: "This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages."

Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. In the absence of the PFI Policy Compliance Aid within the policy, a Mortgagee may review the policy to determine if it meets FHA requirements or rely on the insurance agent or carrier to separately provide the PFI Policy Compliance Aid language.

(iv) Required Documentation

For Properties located within an SFHA, the Mortgagee must include in the case binder:

- a Life of Loan Flood Certification for all Properties;
- if applicable, include a:
  - FEMA Letter of Map Amendment (LOMA);
  - FEMA Letter of Map Revision (LOMR); or
  - FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152); and
- a copy of the certificate of Flood Insurance or complete copy of the Flood Insurance policy, if required.

(v) Required Reporting

The Mortgage must report the required Flood Insurance information in the insurance application screen in FHAC.

(b) Eligibility for New Construction in SFHAs

If any portion of the dwelling and related Structures, or equipment essential to the Property Value is located in an SFHA, the Property is not eligible for FHA mortgage insurance, unless the Mortgagee:

- obtains a FEMA-issued final LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152). The Elevation Certificate must document that the lowest floor of the residential building, including the basement, and all related Structures or equipment essential to the Property Value are built above the 100-year flood elevation in compliance with the NFIP criteria; and
- ensures the Borrower obtains Flood Insurance.

See the HECM for Purchase product sheet for additional requirements.

(c) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, Flood Insurance must be obtained.

(d) Eligibility for Condominiums in SFHAs

The Mortgagee must ensure the Condominium Association obtains Flood Insurance on buildings located within the SFHA. The Flood Insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project. See Flood Insurance (Existing Construction).

(e) Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling and related Structures or equipment essential to the Property Value for both new and existing Manufactured Homes is located in an SFHA, the Property is not eligible for FHA mortgage insurance, unless the Mortgagee:

- obtains a FEMA-issued LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation; and
- ensures the Borrower obtains Flood Insurance.

(f) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA mortgage insurance if the improvements are located within the Coastal Barrier Resources System.

(5) Mixed Use of Property

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space. Mixed Use one- to four-unit Single Family Properties are eligible for FHA insurance, provided:

- a minimum of 51 percent of the entire building square footage is for residential use; and
- the commercial use will not affect the health and safety of the occupants of the residential Property.

(6) Homeowners' and Condominium Associations

For Properties that are located within a Homeowners' Association (HOA) or Condominium Association, the Mortgagee must conduct a review of the recorded Declaration and/or recorded Covenants, Conditions, and Restrictions (CC&R) which are in place for the association. When conducting the review, the Mortgagee must determine whether the recorded Declaration and/or CC&Rs require prior approval by the association of any non-purchase money mortgage that will encumber the Property. In those situations where such a requirement exists, the Mortgagee must obtain the approval of the association in writing prior to origination of the HECM. Documentation concerning this approval must be maintained by the Mortgagee and made available to HUD upon request.

(7) Property Assessed Clean Energy

(a) Definition

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government rather than paid directly by the Borrower to the party providing the PACE financing. Generally, the PACE obligation is also secured in the same manner as a special assessment against the property.

(b) Standard

Properties which will remain encumbered with a PACE obligation are not eligible for an FHA-insured HECM. To be eligible for FHA insurance, the PACE obligation must be paid off in full prior to or at closing. The Borrower may use HECM proceeds to satisfy the PACE obligation. For HECM for Purchase transactions, see the Property Assessed Clean Energy section of the product sheet.

(B) Property Types

FHA's programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated in this Handbook 4000.1, HECMs are limited to one- to four-unit Single Family Properties where the Borrower occupies one unit as their Principal Residence. FHA insures HECM financing on Real Property secured by:

- detached or semi-detached dwellings
- Manufactured Housing
- townhouses or row houses
- Condominium Units and Site Condominiums

FHA will not insure HECMs secured by:

- commercial enterprises
- cooperative units
- boarding houses
- hotels, motels, and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- Vacation Homes
- fraternity and sorority houses

(1) One-Unit

A one-unit Property is a Single Family residential Property with a single Dwelling Unit, or with a single Dwelling Unit and a single ADU.

(2) Two-Unit

(a) Definition

A two-unit Property is a Single Family residential Property with two individual dwellings.

(b) Standard

The Mortgagee must obtain a completed form HUD-92561.

(3) Three- to Four-Unit

A three- to four-unit Property is either:

- a Single Family residential Property with three to four individual Dwelling Units; or
- a Single Family residential Property with two individual Dwelling Units and one ADU or three individual Dwelling Units and one ADU.

The Mortgagee must obtain a completed form HUD-92561.

(4) Accessory Dwelling Unit

(a) Definition

An Accessory Dwelling Unit (ADU) refers to a single habitable living unit with means of separate ingress and egress that meets the minimum requirements for a living unit. An ADU is a private space that is subordinate in size and within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate.

(b) Standard

A Single Family residential one-unit Property with a single ADU remains a one-unit Property. For any Single Family residential Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.

(5) Condominium Unit

(a) Definitions

A Condominium Unit refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

(b) Standard

A Condominium Unit must be either located within an FHA-approved Condominium Project, meet FHA's definition of a Site Condominium, or have

completed the FHA Single-Unit Approval process before a Mortgage can be insured.

(6) Site Condominiums

(a) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse-style) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

(b) Standard

Manufactured Housing condominium units may not be processed as Site Condominiums.

The Unit owner must be responsible for all required insurance and maintenance costs associated with the Unit dwelling, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(7) Manufactured Housing

(a) Definition

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional eligibility standards prescribed in Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages.

(b) Standard

To be eligible for FHA mortgage insurance as a Single Family Title II HECM, all Manufactured Housing must:

- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;

- have the HUD Certification Label affixed or have obtained a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the Federal Manufactured Home Construction and Safety Standards;
- be classified as real estate (but need not be treated as real estate for purposes of state taxation);
- be built and remain on a permanent chassis;
- be designed to be used as a dwelling with a permanent foundation built in accordance with the Permanent Foundations Guide for Manufactured Housing (PFGMH); and
- have been directly transported from the manufacturer or the dealership to the site.

(c) Required Documentation

(i) HUD Certification Label

If the appraisal indicates the HUD Certification Label is missing from the Manufactured Housing unit, the Mortgagee must obtain label verification from the Institute for Building Technology and Safety (IBTS).

(ii) PFGMH Certification

The Mortgagee must obtain a certification by an engineer or architect, who is licensed/registered in the state where the Manufactured Home is located, attesting to compliance with the PFGMH.

The Mortgagee may obtain a copy of the foundation certification from a previous FHA-insured Mortgage, showing that the foundation met the guidelines published in the PFGMH that were in effect at the time of certification, provided there are no alterations and/or observable damage to the foundation since the date of the original certification.

If the Appraiser notes additions or alterations to the Manufactured Housing unit, the Mortgagee must ensure the addition was addressed in the foundation certification.

If the additions or alterations were not addressed in the foundation certification, the Mortgagee must obtain:

- an inspection by the state administrative agency that inspects Manufactured Housing for compliance; or
- certification of the structural integrity from a licensed structural engineer if the state does not employ inspectors.

(C) Property Valuation

The Mortgagee is responsible for obtaining an appraisal to verify the value of the Property and the Property's compliance with HUD's MPR or MPS.

(1) Integrity of Valuation Process: Communications with Mortgagees

The Mortgagee must ensure the integrity of the valuation process by ensuring the valuation process is free from conflicts of interest and the appearance of conflicts of interest.

(a) Standard

The Mortgagee must prevent its staff, or any person who is compensated on a commission basis upon the successful completion of a HECM, or who reports, ultimately, to any officer of the Mortgagee not independent of the HECM production staff and process, from having substantive communications with an Appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment. Normal communications necessary to processing of a case is permissible but cannot attempt to influence the Appraiser.

The underwriter who has responsibility for the quality of the appraisal report is allowed to request clarifications and discuss with the Appraiser components of the appraisal that influence its quality.

(b) Exception for Smaller Mortgagees

When absolute lines of independence cannot be achieved because of the Mortgagee's small size and limited staff, the Mortgagee must clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its HECM production process.

(2) Communications with Third Parties

The underwriter may request a clarification or reconsideration of value from the Appraiser, following the requirements in Reconsideration of Value. The Mortgagee may not discuss the contents of an appraisal with anyone other than the Borrower.

(3) Verifying HUD's Minimum Property Standards/Minimum Property Requirements

As the onsite representative for the Mortgagee, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which include HUD's MPR or MPS.

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure.

iv. Legal Restrictions on Conveyance (Free Assumability)

The Mortgagee must determine that any legal restrictions on conveyance conform with the requirements in 24 CFR § 206.45(e).

In accordance with 24 CFR § 203.41(d)(1)(ii), FHA considers a reasonable share of appreciation to be at least 50 percent. HUD does not object to affordable housing programs whereby the homeowner's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation. If the program sets a maximum sales price restriction, the Borrower must be permitted to retain 100 percent of the appreciation.

A Property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible for FHA-insured financing but only when such agreements are free of restrictions that prevent the Borrower from freely transferring the Property.

Such agreements are acceptable, provided they do not cause a conveyance (ownership transfer) of the insured Property by the Borrower to:

- be void, or voidable by a third party;
- be the basis of contractual liability of the Borrower (including rights of first refusal, preemptive rights or options related to a Borrower's efforts to convey);
- terminate or be subject to termination all or part of the interest held by the Borrower;
- be subject to the consent of a third party;
- be subject to limits on the amount of sales proceeds a Borrower can retain (e.g., due to a lien, "due on sale" clause, etc.);
- be grounds for accelerating the insured HECM; or
- be grounds for increasing the interest rate of the insured HECM.

Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations unless they include provisions encumbering the Real Property or restricting the transfer of the Real Property.

Legal restrictions on conveyance of Real Property (i.e., the house) that could require the consent of a third party (e.g., energy provider, system owner, etc.), include but are not limited to, credit approval of a new purchaser before the seller can convey the Real Property, unless such provisions may be terminated at the option of, and with no cost to, the owner.

If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the Property is subject to impermissible legal restrictions and is generally ineligible for FHA insurance.

3. Allowable Mortgage Parameters

The Mortgagee must determine the Borrower's creditworthiness, financial capacity, and available capital to support the HECM. The Mortgagee must also examine the Property to ensure it provides sufficient collateral for the HECM.

For each HECM the FHA insures, the Mortgagee must fully comply with the following underwriting procedures.

a. Maximum Mortgage Amounts (04/29/2024)

A maximum mortgage amount is not required to be stated in the Mortgage. However, where state law requires the Mortgage to reflect a maximum mortgage amount, the Mortgagee must use an amount that is at least equal to 150 percent of the Maximum Claim Amount (MCA).

The Mortgagee may not disburse payments which will cause the outstanding loan balance to exceed the maximum mortgage amount stated in the Mortgage after the payment is disbursed. If the outstanding mortgage balance reaches the maximum mortgage amount, payments to the Borrower would cease. Payments may be reinstated only in the event the Borrower executes a modification to the Mortgage.

For each HECM FHA insures, the Mortgagee must fully comply with the following requirements.

i. National Housing Act's Statutory Limits

The National Housing Act establishes the national mortgage limit for HECMs.

ii. Nationwide Mortgage Limits

The national mortgage limit for HECMs is governed by the maximum claim amount limitation in sections 255(g) and 255(m) of the National Housing Act, which contains cross-references to section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act. FHA publishes updated limits effective for each calendar year.

b. Maximum Claim Amount (04/29/2024)

i. Definition

The Maximum Claim Amount (MCA) is the lesser of the:

- appraised value as determined by the Collateral Risk Assessment;
- national mortgage limit; or
- sales contract price (applicable only to HECM for Purchase).

ii. Standard

The Mortgagee must determine the MCA at origination. When the collateral risk assessment determines that a second appraisal is required, the Mortgagee must use the lower of the two appraised values. The IMIP must not be taken into account in the calculation of the MCA. Closing costs must not be taken into account in determining appraised value.

c. Interest Rate Options (04/29/2024)

i. Definitions

Fixed Rate refers to an interest rate that is fixed over the life of the HECM.

Annually Adjustable Interest Rate refers to an interest rate that adjusts annually with a 2 percent annual cap and a 5 percent lifetime cap.

Monthly Adjustable Interest Rate refers to an interest rate that adjusts monthly. The maximum lifetime Note rate may not be more than ten percent higher than the initial Note rate.

ii. Standard

The Mortgagee and Borrower must agree upon the interest rate. The Mortgagee may offer a fixed rate HECM and/or an adjustable rate HECM.

The Mortgagee may only offer a monthly adjustable rate when the Mortgagee also offers an annually adjustable rate HECM.

Periodic adjustments in the Note rate must correspond to the upward and downward change in the index, except that downward changes in the current index will not result in an index figure that is less than zero.

The Mortgagee must provide the Borrower with a written explanation of any adjustable rate features of a HECM. The explanation must include the following items:

- circumstances under which the rate may increase;
- any limitations on the increase and the effect of an increase; and
- Truth in Lending Act (TILA) pre-loan disclosures.

d. Principal Limit (04/29/2024)

i. Definitions

Principal Limit refers to the maximum amount of proceeds that a Borrower may receive from the HECM before any Disbursements are made, taking into account the age of the youngest Borrower or Eligible NBS, the Expected Rate, and the MCA.

Principal Limit Factor refers to a multiplier supplied by FHA used to calculate the initial Principal Limit and is available on the HUD website.

Expected Average Mortgage Interest Rate (Expected Rate) refers to the interest rate used to calculate the Principal Limit at closing.

Mortgagee's Margin refers to the amount that is determined by the Mortgagee and is added to the index value to compute the Expected Rate and is the same margin used to determine the initial mortgage interest rate (Note rate) and the periodic adjustments to the Note rate.

Index Type refers to the interest rate index used to calculate the Expected Rate.

ii. Standard

The Mortgagee is responsible for calculating the Principal Limit to determine the amount of HECM proceeds that will be available to the Borrower. The Principal Limit is calculated by multiplying the MCA by the Principal Limit Factor.

The Principal Limit for a fixed rate HECM will increase each month by one-twelfth of the sum of the Note interest rate, plus the annual mortgage insurance rate, but no further HECM proceeds may be made available to the Borrower to draw against after the Borrower's Advance.

The Principal Limit for an adjustable rate HECM will increase each month by one-twelfth of the sum of the Note interest rate, plus the annual mortgage insurance rate.

The Mortgagee must ensure the Borrower is given an analysis of the cost of a HECM versus the benefits of the HECM in order to make an informed decision pertaining to whether a HECM would meet their individual needs.

iii. Principal Limit Factor

The Mortgagee must determine the appropriate Principal Limit Factor based on the age of the youngest Borrower or Eligible NBS and the Expected Rate.

The Mortgagee must use the Principal Limit Factor based on the age of the youngest Borrower or Eligible NBS, rounded up to the nearest whole year if the next birthday is less than 183 Days after closing.

The Mortgagee must also calculate the Principal Limit using the Principal Limit Factor based on the age of the youngest Ineligible NBS solely for the purpose of disclosing the amount of Principal Limit that would have been available under the HECM if they were an Eligible NBS.

The Mortgagee must advise prospective Borrowers and NBSs to discuss with the HECM counselor whether Principal Limit Factors below 20 percent may improve their financial

situation, or meet any special needs, and that, given the costs of obtaining the HECM, they should give significant consideration to its potential benefits.

The Mortgagee must use the *HECM Principal Limit Factor Tables*.

iv. Expected Rate

For fixed rate HECMs, the Expected Rate is the same as the Note rate and is set simultaneously with the Note rate. See Establishing the Note Rate for additional guidance.

For adjustable rate HECMs, the Expected Rate is the sum of the mortgagee's margin plus the weekly average yield for U.S. Treasury securities adjusted to a constant maturity of 10 years (10-year CMT index) and published in the Federal Reserve Board Statistical Release H.15.

v. Expected Rate and Mortgagee's Margin Lock In

(A) Optional Expected Rate Lock-In Agreement

Mortgagees, with the agreement of the Borrower, may simultaneously lock in the Expected Rate and the mortgagee's margin, if applicable, at any time between initial application and the date of closing. The lock-in period starts on the day that the FHA case number is assigned for a period of up to 120 Days.

When the Expected Rate and mortgagee's margin are not simultaneously locked in, the Expected Rate and mortgagee's margin will be set at closing.

If the Expected Rate lock-in agreement includes a float down option, the Principal Limit may be recalculated at closing if the Expected Rate in effect on the date of closing is now lower than the stated Expected Rate in the lock-in agreement.

Mortgagees are not permitted to charge a fee for the lock-in rate or the float down option.

(B) Expected Rate Lock-In Extension

If the initial Expected Rate lock-in agreement has expired, the Mortgagee may extend the previous lock-in period up to an additional 120 Days, with the agreement of the Borrower.

If the initial Expected Rate lock-in agreement has expired and the Mortgagee has not extended the previous lock-in period, the Expected Rate and mortgagee's margin will be set at closing.

(C) Case Number Transfer and Expected Rate Lock-In

When a case number is transferred to a new Mortgagee, the Expected Rate and mortgagee's margin, if applicable, may be locked in by the new Mortgagee with the agreement of the Borrower for a period of up to 120 Days.

e. Payment Plan (04/29/2024)

i. Definition

Payment Plan Option refers to the manner that HECM proceeds are disbursed to the Borrower.

ii. Standard

The Borrower may choose from among six different payment plans on how HECM proceeds are to be disbursed. The Mortgagee is prohibited from requiring, as a condition of the HECM, that any payments or draws exceed a minimum amount.

For adjustable rate HECMs, the Borrower may change payment plans to one of the other available payment options at any time, provided funds are available.

(A) Single Lump Sum Payment Option

The single lump sum payment option is only available for fixed rate HECMs. The Borrower is limited to a single Disbursement at closing with no opportunity for future Disbursements to or on behalf of the Borrower, except as allowed from a Set-Aside established at closing.

(B) Tenure Payment Option

The tenure payment option is available for adjustable rate HECMs. The Borrower receives fixed monthly payments so long as the HECM is not prepaid in full or becomes Due and Payable, or the payments do not exceed any maximum mortgage amount stated in the security instrument or would otherwise exceed the amount secured by the first HECM lien.

(C) Term Payment Option

The term payment option is available for adjustable rate HECMs. The Borrower receives equal monthly payments for a term of months selected by the Borrower.

(D) Line of Credit Payment Option

The line of credit payment option is available for adjustable rate HECMs. The Borrower receives unscheduled payments at times and in amounts of the Borrower's choosing.

(E) Modified Tenure Payment Option

The modified tenure payment option is available for adjustable rate HECMs. The Borrower must set aside a portion of the Principal Limit as a line of credit from which to draw at times and in amounts of their choosing, and receives the rest in equal monthly payments.

(F) Modified Term Payment Option

The modified term payment option is available for adjustable rate HECMs. The Borrower must set aside a portion of the Principal Limit as a line of credit from which to draw at times and in amounts of their choosing, and receives the rest in equal monthly payments for a term of months selected by the Borrower.

f. HECM Calculator Software (04/29/2024)

i. Definition

HECM Calculator Software refers to FHA's technology software that is used to calculate the Principal Limit and for comparison analysis of different payment options.

ii. Standard

Mortgagees and HECM counselors must use computer printouts generated by FHA's HECM Calculator Software, or similar software that generates the same information, for calculating the Principal Limit and providing the Borrower with a comparison of various payment plan options.

g. Disbursement Limits (04/29/2024)

i. Definitions

First 12-Month Disbursement Period refers to the period beginning on the day of closing and ending on the day before the anniversary date of closing. When the day before the anniversary date of closing falls on a federally observed holiday, Saturday, or Sunday, the end period will be on the next business day.

Initial Disbursement Limit refers to the maximum amount of funds that can be advanced to the Borrower of an adjustable rate HECM at closing and during the First 12-Month Disbursement Period.

Borrower's Advance refers to the funds advanced to the Borrower at the closing of a fixed rate HECM.

Net Principal Limit (NPL) refers to the amount of HECM funds available to, or to be paid on behalf of, the Borrower after deducting all fees and charges that are required as a condition of the Mortgage and prior disbursements from the Principal Limit.

Mandatory Obligations refer to fees and/or charges incurred in connection with the origination of the HECM that are requirements for loan approval and which will be paid at closing or during the First 12-Month Disbursement Period.

ii. Standard

The Mortgagee must determine the Borrower's Initial Disbursement Limit or Borrower's Advance at closing.

The Initial Disbursement Limit, Borrower's Advance, or the amount disbursed to the Borrower at any point in time may not exceed the Principal Limit.

The following items must be included in the Initial Disbursement Limit and Borrower's Advance.

Adjustable rate HECMs must include:

- the amount of Mandatory Obligations;
- the amount disbursed to the Borrower at closing; and
- the amount of the available Initial Disbursement Limit not taken by the Borrower at closing.

Fixed rate HECMs must include:

- the amount of Mandatory Obligations; and
- the amount disbursed to the Borrower at closing.

(A) Initial Disbursement Limit Calculation

The Initial Disbursement Limit during the First 12-Month Disbursement Period is the lesser of (1) or (2) below:

1. the greater of:
   - 60 percent of the Principal Limit; or
   - the sum of Mandatory Obligations plus 10 percent of the Principal Limit, if applicable; or
2. the Principal Limit less the sum of the funds in the Life Expectancy Set-Aside (LESA) for payment beyond the First 12-Month Disbursement Period and the Servicing Fee Set-Aside.

The Borrower must notify the Mortgagee of the amount of the additional percentage of the Principal Limit beyond Mandatory Obligations that will be drawn or the amount that will remain available to be drawn during the First 12-Month Disbursement Period. The Borrower may not increase or decrease this election after closing.

(B) Borrower's Advance Calculation

The Mortgagee must determine the Borrower's Advance at closing. The Borrower's Advance must not exceed the lesser of (1) or (2) below:

1. the greater of:
   - 60 percent of the Principal Limit; or
   - the sum of Mandatory Obligations plus 10 percent of the Principal Limit, if applicable; or
2. the Principal Limit less the sum of the funds in the LESA for payment beyond the First 12-Month Disbursement Period and the Servicing Fee Set-Aside.

The Borrower must notify the Mortgagee of the amount of the additional percentage of the Principal Limit beyond Mandatory Obligations that will be drawn.

iii. Eligibility for an Additional 10 Percent of the Principal Limit

The Borrower is eligible for up to an additional 10 percent of the Principal Limit when Mandatory Obligations exceed 50 percent of the Principal Limit. The Borrower must notify the Mortgagee of the amount of the additional 10 percent of the Principal Limit that they intend to draw at the time of closing or during the First 12-Month Disbursement Period.

iv. Net Principal Limit Calculation

The Mortgagee must determine the NPL by subtracting from the Principal Limit any initial payments to or on behalf of the Borrower, such as the IMIP, closing costs, or cash payment to the Borrower, and if applicable, any funds set aside from the Principal Limit for monthly servicing fees, repairs to be completed after closing, a LESA, or first-year Property Charges.

h. Maximum Mortgage Term (04/29/2024)

The HECM does not have a fixed maturity date.

i. Mortgage Insurance Premiums (04/29/2024)

FHA collects a one-time IMIP and an annual insurance premium, also referred to as the monthly Mortgage Insurance Premium (MIP), which is collected in monthly installments.

i. Initial Mortgage Insurance Premium

(A) Definition

Late Charges refer to charges assessed if the IMIP payment is received more than twenty Days after the Closing Date.

(B) Standard

The IMIP is the responsibility of the Borrower and must be financed or paid in cash by the Borrower. Any amount not paid in cash must be financed. Any IMIP amount paid in cash is added to the total cash requirements due at closing.

Mortgagees may pay a portion or the full amount of IMIP on behalf of the Borrower.

(1) Initial Mortgage Insurance Premium Payment Due Date

The Mortgagee must remit the IMIP within 15 Days of the Closing Date and as a condition of endorsement. See IMIP Late Charge and Interest for additional information.

(2) Initial Mortgage Insurance Premium Amount

FHA charges an IMIP of 2 percent of the MCA.

The IMIP must be financed or paid in cash by the Borrower or Mortgagee. The Borrower and/or Mortgagee may pay a portion or the full amount of the IMIP. Any amount not paid in cash must be financed. Any IMIP amounts paid in cash are added to the total cash requirements due at closing.

See the Initial Mortgage Insurance Premium Amount section in the HECM for Purchase product sheet.

ii. Annual Mortgage Insurance Premium

The annual MIP is payable monthly. FHA charges an annual MIP of 0.50 percent on the outstanding mortgage balance. The amount of the annual MIP will begin to accrue on the outstanding mortgage balance from the Closing Date.

4. Underwriting the Property

The Mortgagee must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured HECM. The appraisal and Property must comply with the requirements in the Appraiser and Property Requirements for Title II Forward and Reverse Mortgages. The appraisal must be reported in accordance with the Acceptable Reporting Forms and Protocols.

a. Property Acceptability Criteria (11/10/2026)

i. Definitions

HECM Property refers to a Property that is either Existing Construction or New Construction which will serve as collateral for the HECM.

Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness, and security of New Construction.

Combination Inspector (CI) or Residential Combination Inspector (RCI) refers to an inspector that has met certification requirements as determined by the International Code Council (ICC).

Shared Well refers to a well that services two to four homes where there is a binding Shared Well Agreement between the property owners that meets FHA requirements.

ii. Standard

The Mortgagee must evaluate the appraisal and any supporting documentation to determine if the Property complies with HUD's Property Acceptability Criteria. HECM Properties must comply with Application of Minimum Property Requirements and Minimum Property Standards by Construction Status. See HECM for Purchase product sheet for additional Property Acceptability Requirements.

(A) Defective Conditions

The Mortgagee must evaluate the appraisal in accordance with the requirements for defective conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property. The Mortgagee may only approve a Property after the Mortgagee confirms that all defects reported by the Appraiser have been corrected or a Repair Set-Aside is established in accordance with HECM Repair Set-Aside Requirements.

(B) Minimum Property Requirements and Minimum Property Standards

As the onsite representative for the Mortgagee, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which includes HUD's MPR and MPS.

When the Appraiser's observation of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, the Mortgagee may obtain an inspection from a qualified entity to make the determination. Mortgagees must use professional judgment in determining when inspections are necessary to determine that a Property meets MPR or MPS. Mortgagees must also use professional judgment in determining when a property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the Property, such that additional inspections and/or repairs are necessary.

The Mortgagee must confirm that the Property complies with the following eligibility criteria.

(1) Encroachment

The Mortgagee must ensure the subject's dwelling, garage, or other improvements do not encroach onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Mortgagee must also ensure a neighboring dwelling, garage, or other improvements do not encroach onto the subject Property. Encroachment by the subject or adjacent Property fences is acceptable provided such Encroachment does not affect the marketability of the subject Property.

(2) Overhead Electric Power

The Mortgagee must confirm that any Overhead Electric Power Transmission Lines do not pass directly over any dwelling, Structure, or related property improvement, including pools. The power line must be relocated for a Property to be eligible for an FHA-insured HECM.

The residential service drop line may not pass directly over any pool, spa, or water feature.

If the dwelling or related property improvements are located within the Easement area, the Mortgagee must obtain a certification from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and Local Distribution Lines conforms to local standards and is safe.

(3) Access to Property

The Mortgagee must confirm that the Property is provided with a safe pedestrian access and Adequate Vehicular Access from a public or private street. Streets must either be dedicated to public use and maintenance or retained as private streets protected by permanent recorded Easements.

Private streets, including shared driveways, must be protected by permanent recorded Easements, ownership interest, or be owned and maintained by an HOA. Private streets and shared driveways do not require a joint maintenance agreement.

(4) Onsite Hazards and Nuisances

The Mortgagee must require corrective work to mitigate potential adverse effects from any onsite hazards or nuisances reported by the Appraiser.

(5) Abandoned Gas and Oil Well

If the Property contains any abandoned gas or oil wells, the Mortgagee must obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner.

If the Property contains any abandoned petroleum product wells, the Mortgagee must ensure that a qualified petroleum engineer has inspected the Property and assessed the risk, and the appropriate state authorities have concurred on clearance recommendations.

(6) Minimum Requirements for Living Unit

The Mortgagee must confirm that each living unit contains:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- space adequate for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water;
- electricity adequate for lighting and mechanical equipment used in the living unit; and
- kitchen facilities adequate for the preparation and cooking of food. Every living unit must have at least one area with kitchen facilities, which must include, at a minimum, a sink with potable running water and a stove utility hookup.

The Mortgagee must ensure that Appliances that are to remain and that contribute to the market value opinion are operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and Condominium Units. For Manufactured Housing requirements, see the Manufactured Housing section.

(7) Swimming Pools

The Mortgagee must confirm that any swimming pools comply with all local ordinances.

(8) Structural Conditions

The Mortgagee must confirm that the Structure of the Property will be serviceable for the life of the HECM.

The Mortgagee must confirm that all foundations will be serviceable for the life of the HECM and adequate to withstand all normal loads imposed.

(9) Environmental

The Mortgagee must confirm that the Property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of

the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

(10) Lead-Based Paint

For properties built before 1978 with lead-based paint hazards, the Mortgagee must confirm whether any child under six years of age resides or is expected to reside in the home and comply with the following:

- If a child under six years of age resides or is expected to reside in the home, the Mortgagee must confirm that the Property is free of lead-based paint hazards in accordance with the requirements of the Lead-Based Paint Poisoning Prevention Act (LPPPA).
- If no children under six years of age resides or is expected to reside in the home, the Mortgagee must obtain certification from the Borrower that no child under six years of age resides, or is expected to reside, in the home. In accordance with the requirements of the LPPPA, the mitigation of defective lead-based paint surfaces will not be required. The Mortgagee must notify the Appraiser of the LPPPA exemption, provide a copy of the Borrower certification, and ensure the appraisal reflects the "As-Is" value of the subject Property's defective lead-based paint surfaces.

(11) Defective Exterior Paint Surfaces

The Mortgagee must confirm that the exterior of the Property is free from any defective paint that exposes the dwelling subsurface to the elements (e.g., cracking, chipping, peeling, flaking, scaling paint, etc.).

(12) Methamphetamine Contamination

If the Mortgagee or the Appraiser identifies a Property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Property is ineligible due to this environmental hazard until the Property is certified safe for habitation.

(13) Repair Requirements

The Mortgagee must determine which repairs must be made for a HECM Property to be eligible for an FHA-insured HECM.

(14) Utility Services

If utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body, the Mortgagee must confirm that this information is recorded on the deed record.

(15) Water Supply Systems

(a) Public Water Supply System

The Mortgagee must confirm that a connection is made to a public or Community Water System whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing onsite systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating that the water is unsafe.

(b) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, the Mortgagee must ensure that the water quality meets the requirements of the health authority with jurisdiction.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the Environmental Protection Agency (EPA), as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141–142.

If the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells, or artesian wells, the Property is not eligible for FHA mortgage insurance.

(i) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides), or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water

supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner, or other Interested Party collect and/or transport the sample.

Requirements for the location of wells for FHA-insured Properties are located in 24 CFR § 200.926d(f)(3).

The following tables provide the minimum distance required between wells and sources of pollution for an Existing Construction:

Individual Water Supply System for Minimum Property Requirements for Existing Construction*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject Property line is adjacent to a residential Property, then local well distance requirements prevail. If the subject Property is adjacent to a nonresidential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum requirements for water wells:

Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver a continuous water flow of five gallons per minute over at least a four-hour period

Water Wells Minimum Property Requirements for Existing Construction	
1	Existing wells must deliver a continuous water flow at a minimum of three to five gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirements of local jurisdiction or the EPA if no local standard

(ii) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or locality. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(c) Shared Wells

The Mortgagee must confirm that a Shared Well:

- serves Properties that cannot feasibly be connected to an acceptable public or Community Water Supply System;
- is capable of providing a continuous supply of water to involved Dwelling Units so that each Existing Construction Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);
- provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;
- has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- serves no more than four living units or Properties.

(i) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

For both New and Existing Construction, the Mortgagee must ensure that the shared well agreement complies with the guidance provided in the following table.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to "supplied" parties if the "supplying" party has no further need for the Shared Well system. ("Supplied" parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the Shared Well system without: • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection, and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection, or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
15	Specify required cost sharing for: • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection, and disinfection; • system component replacement due to wear, obsolescence, incrustation, or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement, or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

(ii) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or locality. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(16) Individual Residential Water Purification Systems

(a) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(b) Standard

If a Property does not have access to a continuous supply of safe and potable water without the use of a water purification system, the Mortgagee must ensure that the Property has an individual residential water purification system as well as a service contract for the ongoing maintenance of the system, a plan approved by the local or state health authority.

(i) Approved Equipment for Individual Residential Water Purification Systems

Water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local or state health authority. The

Mortgagee must obtain a certification from a local or state health authority which certifies that:

- A point-of-entry or point-of-use water purification system is on the Property. If the system employs point-of-use equipment, the purification system must be employed on each water supply source (faucet) serving the Property. Where point-of-entry systems are used, separate water supply systems carrying untreated water for flushing toilets may be constructed.
- The system is sufficient to ensure an uninterrupted supply of safe and potable water adequate to meet household needs.
- The water supply, when treated by the equipment, meets the requirements of the local or state health authority, and has been determined to meet local or state quality standards for drinking water. If neither state nor local standards are applicable, then quality must be determined in accordance with standards set by the EPA pursuant to the Safe Drinking Water Act in 40 CFR Parts 141–142.
- A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.

(ii) Borrower Notice of Water Purification System

The Mortgagee must provide written notification to the Borrower that the Property has a hazardous water supply that requires treatment in order to remain safe and acceptable for human consumption. The notification to the Borrower must identify specific contaminants in the water supply serving the Property, and the related health hazard arising from the presence of those contaminants.

The Mortgagee must ensure that the Borrower has received a written estimate of the maintenance and replacement costs of the equipment necessary to ensure continuous safe drinking water.

(iii) Service Contract for Individual Residential Water Purification Systems

Before mortgage closing, the Mortgagee must ensure that the Borrower has entered into a service contract with an organization or individual specifically approved by the local or state health authority to carry out the provisions of the required plan for the servicing, maintenance, repair, and replacement of the water purification equipment.

(iv) Approved Plan for Individual Residential Water Purification Systems

An approved plan is a contract entered into by the Borrower and Mortgagee and approved by the local or state health authority, and that sets out conditions as described below that must be met by the parties as a condition to insurance of the HECM by HUD.

The plan must set forth the respective responsibilities to be assumed by the Borrower and the Mortgagee, as well as the other entities who will implement the plan, such as the health authority and the service contractor. In particular:

- The plan must set out the responsibilities of the health authority for monitoring and enforcing the performance of the service contractor, including any successor contractor that the health authority may later have occasion to name. By its approval of the plan, the health authority documents its acceptance of these responsibilities, and the plan should so indicate.
- The plan must provide for the monitoring of the operation of the water purification equipment, as well as for servicing (including disinfecting) and repairing and replacing the system as frequently as necessary, taking into consideration the system's design, anticipated use, and the type and level of contaminants present. Installation, servicing, repair, and replacement of the water purification system must be performed by an individual or organization approved for this purpose by the local or state health authority and identified in the plan. The plan must refer to specific terms and conditions of the required service contract.
- Under the plan, responsibility for monitoring the performance of the service contractor and for ensuring that the water purification system is properly serviced, repaired, and replaced rests with the local or state health authority that approved the plan. The plan must confer on the health authority all powers necessary to effect compliance by the service contractor. The health authority's powers must include the authority to notify the Borrower of any noncompliance by the service contractor. The plan must provide that upon any notification of noncompliance received from the health authority, the Borrower may discharge the service contractor for cause and appoint a successor organization or individual as service contractor.
- The Mortgagee must ensure that any plan developed in accordance with this section must provide that an analysis of the water supply must be obtained from the local or state health authority no less frequently than annually, but more frequently if determined at any time to be necessary by the health authority or by the service contractor.

The plan must provide that if the dwelling served by the water purification system is refinanced, or is sold or otherwise transferred with a HUD-insured Mortgage, the plan will:

- continue in full force and effect;
- impose an obligation on the Borrower to notify any subsequent purchaser or transferee of the necessity for the water purification system and for its proper maintenance; and
- require the Borrower to furnish the purchaser with a copy of the plan before any sales contract is signed.

(c) Required Documentation

(i) Borrower Notice of Water Purification System

A copy of the notification statement (including cost estimates), dated before the date of the sales contract and signed by the prospective Borrower to acknowledge its receipt, must accompany the submission for insurance endorsement. If a sales contract is signed in advance of the disclosure required by this paragraph, an addendum must be executed after the information is provided to the prospective Borrower and after they have acknowledged receipt of the disclosure.

(ii) Borrower's Certification of Water Purification System

At the time the application is signed, the Borrower must sign a certification acknowledging that the Property has a water purification system that must be maintained.

(iii) Approved Plan for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the approved plan is provided to HUD.

(iv) Service Contract for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the service contract signed by the Borrower is provided to HUD.

(v) Water Purification Equipment Rider for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the Water Purification Equipment Rider is provided to HUD.

(17) Sewage System

The Mortgagee must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing Onsite Sewage Disposal Systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

When the Onsite Sewage Disposal System is not sufficient and an off-site system is available, the Mortgagee must confirm connection to an off-site sewage system. When the Onsite Sewage Disposal System is not sufficient and an off-site system is not available, the Mortgagee must reject the Property unless the Onsite Sewage Disposal System is repaired or replaced and complies with local health department standards.

(18) Termites

The Mortgagee must confirm that the Property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, the Mortgagee must obtain such inspection and evidence of any required treatment to confirm the Property is free of wood destroying insects and organisms.

Soil poisoning is an unacceptable method for treating termites unless the Mortgagee obtains satisfactory assurance that the treatment will not endanger the quality of the water supply.

(19) Special Airport Hazards

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower's acknowledgment of the hazard.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

(C) Minimum Required Repairs

When the appraisal report or inspection from a qualified entity indicates that repairs are required to make the Property meet HUD's MPR, the Mortgagee must comply with Repair Requirements. Where major property deficiencies threaten the health and safety of the homeowner and/or jeopardize the soundness and security of the Property, all repairs must be completed prior to closing.

If repairs for the HECM Property can be completed after closing, the Mortgagee may establish a Set-Aside account in accordance with HECM Repair Set-Aside Requirements.

(1) Estimate of Required Repairs

An estimate of the cost of required repairs must be provided by the Appraiser. If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, an inspection by a qualified individual or entity may be required. For more information, see Inspection by a Qualified Individual or Entity.

The Borrower may obtain the services of a general contractor to complete the repairs.

(2) Repair Set-Aside Requirements

(a) Definition

Repair Set-Aside refers to an amount withheld from the HECM proceeds to fund repairs required to bring the mortgaged Property into compliance with Minimum Property Standards (MPS).

(b) Standard

The Borrower must establish a Repair Set-Aside equal to 150 percent of the cost of the repairs, plus the repair administration fee, when the required repairs will be completed after closing. The Mortgagee may charge a repair administration fee for this agreement not to exceed the greater of $50 or 1 ½ percent of the amount advanced for repairs. This fee is paid to the Mortgagee and is independent of the fees paid by the Borrower for compliance inspections.

HECM proceeds placed in a Repair Set-Aside must not be held in an escrow account.

The Borrower must complete the required repairs in a satisfactory manner, within the time frame specified in the Repair Rider, but not to exceed 12 months from the date of closing.

The Borrower may have the repairs completed with the intention of paying the contractors with HECM proceeds, Borrower funds, or a combination of HECM proceeds and Borrower funds. However, any amounts owed must be paid at closing and all mechanic's liens removed at closing. Any amount owed must not exceed the Initial Disbursement Limit or Borrower's Advance.

(3) Required Repairs Estimated to Cost No More Than 15 Percent of Maximum Claim Amount

The Borrower may complete the required repairs after closing when the estimated repairs cost no more than 15 percent of the MCA using a Repair Set-Aside.

(4) Required Repairs Estimated to Exceed 15 Percent of the Maximum Claim Amount

The Borrower must complete the required repairs before closing when the estimated repair cost exceeds 15 percent of the MCA. The Mortgagee must include required repairs on form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, as a condition of closing.

(D) Leased Equipment

The Mortgagee must ensure that the Property Value does not include the value of any equipment, including an energy system, that is not fully owned by the Borrower. The Mortgagee must review the terms of the lease on any equipment to ensure they do not contain any unacceptable Legal Restrictions on Conveyance (Free Assumability).

(E) Appraisal Review

The Mortgagee must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the Property.

When there are multiple appraisals, the underwriter must confirm the appraisal selected by the HECM collateral risk assessment is used to complete form HUD-92800.5B.

(F) Quality of Appraisal

The Mortgagee must evaluate the appraisal and ensure it complies with the requirements in Valuation and Reporting Protocols, and any additional appraisal requirements that are specific to the subject Property.

(G) Opinion of Market Value

The Mortgagee must ensure the Market Value of the Property is sufficient to adequately secure the FHA-insured HECM.

(H) Reconsideration of Value

The underwriter may request a reconsideration of value when the Appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the Appraiser with all relevant data that is necessary for a reconsideration of value.

The Appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the Borrower, the Borrower must not be held responsible for the additional costs. The effective date of the appraisal is the date the Appraiser inspected the Property.

b. Required Documentation for Underwriting the Property (08/19/2024)

If additional inspections, repairs, or certifications are noted by the appraisal or are required to demonstrate compliance with Property Acceptability Criteria, the Mortgagee must obtain evidence of completion of such inspections, repairs, or certifications, and include the repair cost estimate.

If the Appraiser is being utilized to provide evidence of completion of repair(s) or condition(s) noted in the original appraisal report, Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*, Certification of Completion must be used.

c. Form HUD-92800.5B*, Conditional Commitment Direct Endorsement Statement of Appraised Value* (08/19/2024)

Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* provides the terms upon which the commitment/direct endorsement statement of appraised value is made and the specific conditions that must be met before HUD can endorse a *Firm Commitment* for mortgage insurance. The underwriter must complete form HUD-92800.5B as directed in the form instructions.

The Mortgagee must provide a copy of the completed form HUD-92800.5B to the Borrower.

5. Performing the Financial Assessment of the Borrower

a. Definition (04/29/2024)

Financial Assessment refers to the Mortgagee's evaluation, performed by an underwriter, of the Borrower's willingness and capacity to meet their financial obligations in a timely manner, comply with the mortgage requirements, and determine if the HECM will be a sustainable solution to the Borrower's financial circumstances.

b. Credit History Review Requirements (11/10/2026)

The Mortgagee must determine if the Borrower has demonstrated the willingness to timely meet their financial obligations by analyzing the Borrower's credit history. The Mortgagee must take into consideration that some Borrowers seek a HECM due to financial difficulties, which may be reflected on the Borrower's credit report. The Mortgagee must also consider to what extent the proceeds of the HECM could provide a solution to any such financial difficulties.

Mortgagees must pay particular attention to situations where serious derogatory credit, such as foreclosures, bankruptcies, defaults, late Mortgage Payments, or late payments for Property Charges, are on the Borrower's record. Where the Borrower has not demonstrated the willingness to meet their financial obligations and no Extenuating Circumstances can be documented, such circumstances must be viewed as especially significant events that call into question the ability of the Borrower to manage their financial obligations.

i. General Credit Requirements

(A) Borrower

(1) Standard

The Mortgagee must analyze the Borrower's credit history, liabilities, and debts to determine the willingness of the Borrower to meet their financial obligations. The Mortgagee must obtain either a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

(2) Required Documentation

The Mortgagee must obtain a credit report for each Borrower who will be obligated on the mortgage Note. The Mortgagee may obtain a joint report for individuals with joint accounts.

(B) Eligible Non-Borrowing Spouse and Other Non-Borrowing Household Member

(1) Standard

The Mortgagee must only obtain a credit report for an Eligible NBS or Other Non-Borrowing Household Member when their income will be used as a Compensating Factor or in reducing family size when determining if the Borrower meets the applicable standard for Residual Income.

The credit report for an Other Non-Borrowing Household Member must indicate the Other Non-Borrowing Household Member's SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must provide either separate documentation indicating that the SSN was matched with the SSA, or a statement that the Other Non-Borrowing Household Member does not have an SSN. Where an SSN does not exist for an Other Non-Borrowing Household Member, the credit report must contain, at a minimum, the Other Non-Borrowing Household Member's full name, date of birth, and previous addresses for the last two years.

(2) Required Documentation

The Mortgagee must obtain a credit report for an Eligible NBS or Other Non-Borrowing Household Member, if applicable.

ii. Credit History

If a traditional credit report is available, the Mortgagee must use a traditional credit report.

If a traditional credit report is not available, and the Borrower is applying for a Traditional or Refinance HECM, the Mortgagee is not required to develop the Borrower's credit history using the requirements for non-traditional and insufficient credit. The Borrower may be deemed to have an acceptable credit history.

If the TRMCR or RMCR generates a credit score, the Mortgagee must utilize traditional credit history.

(A) Requirements for the Credit Report

Credit reports must obtain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The Mortgagee must retain copies of all credit reports.

The credit report must include:

- the name of the Mortgagee ordering the report;
- the name, address, and telephone number of the consumer reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes, provided that the mortgage application captures the full nine-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
  - bankruptcies;
  - Judgments;
  - lawsuits;
  - foreclosures; and

- tax liens; and
- for each Borrower debt listed:
  - the date the account was opened;
  - high credit amount;
  - required monthly payment amount;
  - unpaid balance; and
  - payment history.

(B) Updated Credit Report or Supplement to the Credit Report

The Mortgagee must obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the HECM file and the original credit report.

(C) Credit Information Not Listed on Credit Report

A Mortgagee must develop credit information separately for any open debt listed on the HECM application but not referenced in the credit report by using the procedures below for Independent Verification of Non-traditional Credit Providers.

(D) Specific Requirements for Residential Mortgage Credit Report

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the Borrower's employment history;
- verify each Borrower's current employment and income through an interview with the Borrower's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each Borrower and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

(E) Independent Verification of Non-Traditional Credit Providers

The Mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

To verify the existence of each credit provider, the Mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.

To verify credit information, the Mortgagee must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and

- obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the Borrower's rental payment history, the Mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

iii. Evaluating Credit History

(A) General Credit

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's ability to manage their financial obligations.

The Mortgagee does not need to consider the credit history of an Eligible NBS or Other Non-Borrowing Household Member.

(B) Types of Payment Histories

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) Revolving Charge Accounts.

(1) Satisfactory Credit History

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on Revolving Charge Accounts in the previous 12 months.

Major derogatory credit on Revolving Charge Accounts must include any payments made more than 90 Days after the due date, or three or more payments made more than 60 Days after the due date.

(2) Credit Payment History Requiring Additional Analysis

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

The Mortgagee must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or Extenuating Circumstances. The Mortgagee must document this analysis in the HECM file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

Where the Borrower has not met the requirements for satisfactory credit above, and no Extenuating Circumstances can be documented, the Mortgagee must, at a minimum, require a Fully Funded Life Expectancy Set-Aside.

Where a Fully Funded LESA is required, Mortgagees must still determine if the Borrower's credit history provides reasonable assurance that the Borrower can effectively manage financial obligations even when real estate taxes and insurance are paid directly by the Mortgagee through the LESA. See Final HECM Decision for additional information.

(3) Extenuating Circumstances

(a) Definition

Extenuating Circumstances refer to factors a Mortgagee may cite when the Borrower's credit and/or property charge payment history does not meet the criteria described in the Satisfactory Credit History and Satisfactory Property Charge Payment History sections.

(b) Standard

Mortgagees must consider any Extenuating Circumstances that led to the credit or property charge issues.

In order to be used to make a determination that credit and/or property charge payment history is acceptable, documentation of Extenuating Circumstances must demonstrate:

- the connection between the specific occurrence(s) and the measurable impact of the occurrence(s) on the Borrower's finances;
- that no other actions, directly or indirectly related to the financial problem, were taken by the Borrower that contributed to the derogatory incident(s);
- the likelihood that these circumstances will not recur. In assessing the likelihood that the circumstances will not recur, Mortgagees must consider the impact of the HECM on the Borrower's circumstances through the elimination of financial obligations and/or through an increase in Borrower income; and
- that the Borrower demonstrates financial liquidity through non-HECM assets, additional sources of income not considered in the financial

assessment, or other documented factors that enhance their ability to endure financial challenges.

Extenuating Circumstances may include, but are not limited to:

- loss of income due to the death or divorce of a spouse that directly resulted in late payment of obligations;
- loss of income due to the Borrower's or spouse's unemployment, reduced work hours or furloughs, or emergency medical treatment or hospitalization that directly resulted in late payments of obligations; or
- increase in financial obligations due to emergency medical treatment or hospitalization for the Borrower or spouse, emergency property repairs not covered by homeowners or Flood Insurance, divorce, or other causes that directly resulted in late payments of obligations.

Unemployment as an Extenuating Circumstance

If a Borrower cited loss of income due to unemployment as the cause of late payments or other derogatory information, the Mortgagee must document the actual reduction in income to determine the degree to which the Borrower's ability to meet their financial obligations was impacted.

The documentation must include the following:

- the Borrower's documented satisfactory credit and/or property charge payment history prior to being unemployed;
- the Borrower's documented income, including any unemployment compensation received, was insufficient to make timely payments on all outstanding accounts;
- the credit report indicates that the Borrower did not incur new debt, unrelated to the financial problem, that contributed to the Borrower's inability to meet all obligations in a timely manner; and
- the Borrower is employed again and/or has alternate sources of income.

(c) Required Documentation

The Mortgagee must provide the following documentation:

- the credit report, evidencing satisfactory credit prior to the period of unemployment;
- evidence of a satisfactory property charge payment history prior to the period of unemployment;
- income Tax Returns for the year prior to and during the period of unemployment, evidencing the total available income during the period of unemployment, including any unemployment compensation;
- verification the Borrower is receiving income from re-employment and/or has other replacement sources of income, which, when combined with other uninterrupted pre-existing income, are sufficient

to allow the Borrower to meet their financial obligations in a timely manner;
- supporting explanations from the Borrower; and
- any additional documentation upon which the Mortgagee relied to support the loss of income, its impact on the Borrower's credit history and subsequent financial recovery.

(C) Housing Obligations/Mortgage Payment History

(1) Definition

A Housing Obligation/Mortgage Payment/Loan Payment refers to the monthly payment due for rental or Properties owned. For the purposes of servicing the Mortgage, Mortgage Payment refers to the total monthly payment on the FHA-insured Mortgage.

(2) Standard

A Mortgage Payment is considered delinquent if not paid within the month due.

A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

The Mortgagee must determine the Borrower's Housing Obligation/Mortgage Payment history for their Principal Residence through:
- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Mortgage Payments received directly from the Servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Mortgagee must verify and document the previous 12 months of housing payment history for the 12 months prior to case number assignment. For Borrowers who indicate they are living rent-free, the Mortgagee must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent-free.

An existing or prior Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

A Mortgage that was subject to mortgage payment forbearance must utilize the Mortgage Payment history in accordance with the Forbearance Plan for the time period of the forbearance in determining late housing payments.

Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of analyzing credit history.

(3) Required Documentation [Text was deleted in this section.]

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

(D) Collection Accounts

(1) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(2) Standard

The Mortgagee must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- Extenuating Circumstances.

(3) Required Documentation

The Mortgagee must document reasons for approving a HECM when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

(E) Charge Off Accounts

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

The Mortgagee must determine if Charge Off Accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- Extenuating Circumstances.

(3) Required Documentation

The Mortgagee must document reasons for approving a HECM when the Borrower has any Charge Off Accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

(F) Disputed Derogatory Credit Accounts

(1) Definition

Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(2) Standard

The Mortgagee must analyze the documentation provided for consistency with other credit information to determine if the Disputed Derogatory Credit Account should be considered in the credit history review.

The following items may be excluded from consideration in the credit history review:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use.

(3) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft, or unauthorized use balances, the Mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(G) Judgments

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower created by a court or other adjudicating body.

(2) Standard

The Mortgagee must verify that court-ordered Judgments are paid off prior to or at closing.

Regardless of the amount of outstanding Judgments, the Mortgagee must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- Extenuating Circumstances.

(3) Required Documentation

The Mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement; or
- the payoff statement, if paid at settlement.

c. Property Charge Payment History Review Requirements (04/29/2024)

i. Definition

Property Charges refer to obligations of the Borrower that include:

- property taxes;
- Hazard Insurance premiums;
- applicable Flood Insurance premiums;
- Ground Rents;
- Condominium Fees;
- Planned Unit Development (PUD) fees;
- Homeowners' Association (HOA) Fees; and
- other special assessments that may be levied by municipalities or state law.

ii. Standard

The Mortgagee must determine if the Borrower has demonstrated the willingness to timely meet their financial obligations by analyzing the Borrower's property charge payment history. The Mortgagee must analyze each applicable Property Charge for the preceding 24 months from the time of loan application, except for Hazard and Flood Insurance. The Mortgagee must take into consideration that some Borrowers seek a HECM due to financial difficulties, which may be reflected on the Borrower's property

charge payment history. The Mortgagee must also consider to what extent the proceeds of the HECM could provide a solution to any such financial difficulties.

Where the Borrower owns no other real estate and has changed their Principal Residence within the last 24 months, the Mortgagee must review the property charge payment history for the current Principal Residence and the most recent prior Principal Residence(s) for a combined 24 months.

(A) Property Taxes

The Borrower's property tax payment history from all taxing authorities, including school, city, county, state, etc., must be verified for the preceding 24 months for all owned real estate. Verification may be in the form of written statements or online printouts from the taxing authority or through copies of bills and canceled checks or other equivalent proof of payment. Alternatively, the Mortgagee may obtain verification from a third-party vendor.

Where the Mortgagee can document that property taxes were paid by the servicing Mortgagee through an escrow account, Mortgagees may rely upon monthly mortgage payment history reported on the credit report to establish property tax payment history.

(1) Manufactured Homes Taxed as Personal Property

The Mortgagee is not required to verify the Borrower's personal property tax payment history for a Manufactured Home that is not taxed as real estate.

(2) Waiver or Deferral of Property Taxes

Where a taxing authority has permanently waived or otherwise permanently exempted the Borrower from payment of property taxes (i.e., taxes are not Due and Payable and do not accrue or result in a first lien against the Property), such taxes may be excluded from the expense analysis. Documentation for the waiver or exemption must be placed in the case binder.

Where a Borrower is participating in a Real Estate Tax Deferral Program, such taxes may be excluded from the expense analysis. Documentation for the Real Estate Deferral Program that supports the exclusion of property tax expenses from the expense analysis must be placed in the case binder.

(B) Hazard Insurance and Flood Insurance

Mortgagees must determine whether the Property has Hazard Insurance and Flood Insurance, if applicable. The Mortgagee must review the insurance payment history to ensure continuous coverage for the preceding 12 months. Copies of bills and canceled checks or equivalent proof of payment may be utilized.

(C) Ground Rent

For all Properties subject to ground rents, Mortgagees must obtain from the lessor or its management agent a written statement documenting payments, or copies of bills and canceled checks for the preceding 24 months.

(D) Condominium, PUD, and HOA Fees

The Mortgagee must obtain verification of the Borrower's Condominium, PUD, or HOA fee payment history for all owned real estate for the preceding 24 months from the entity levying the fee or its authorized agent. In lieu of direct verification, copies of bills and canceled checks or equivalent proof of payment may be utilized.

(E) Other Special Assessments

Mortgagees must obtain for all owned real estate from the party levying the assessment or its management agent a written statement documenting payments, or copies of bills and canceled checks, or equivalent proof of payment for the preceding 24 months.

iii. Satisfactory Property Charge Payment History

The Mortgagee may consider the Borrower to have a satisfactory property charge payment history where, at the time of loan application, all property taxes, HOA, condominium, and PUD fees for all owned real estate are current and there were no property charge delinquencies in the previous 24 months.

If Hazard Insurance and Flood Insurance, if applicable, were not in place for the Borrower's Principal Residence for the previous 12 months, the Borrower must obtain coverage and prepay for 12 months at or before mortgage closing.

iv. Property Charge Payment History Requiring Further Analysis

If a Borrower's property charge payment history is not satisfactory, the Borrower's property charge payment history requires additional analysis.

The Mortgagee must determine whether late payments and/or the assessment of late fees or penalties were based on a disregard for financial obligations, an inability to manage debt, or Extenuating Circumstances. If the Mortgagee can document the late payments and/or the assessment of late fees or penalties were solely due to the servicing Mortgagee's untimely payment from an escrow account, then the Mortgagee may consider the Borrower to have a satisfactory property charge payment history. As such, the late payment by the servicing Mortgagee is not considered an Extenuating Circumstance.

Where the Borrower has not demonstrated the willingness to meet their financial obligations as stated in Satisfactory Property Charge Payment History and no

Extenuating Circumstances can be documented, the Mortgagee must, at a minimum, require a Fully Funded LESA.

Where a Fully Funded LESA is required, the Mortgagee must still determine, through the financial assessment, that the HECM will provide the Borrower with a sustainable solution, permitting the satisfaction of financial obligations in a timely manner. See Final HECM Decision for additional information.

v. Required Documentation

The Mortgagee must document the property charge payment history analysis in the HECM file. Any explanation or documentation of late payments must be consistent with other information in the file.

d. Monthly Expense Analysis (11/10/2026)

Monthly Expense Analysis refers to the analysis of the Borrower's monthly expenses required to calculate Residual Income.

i. Monthly Expenses

The Mortgagee must determine the Borrower's monthly expenses for the following:

- federal and state income taxes;
- Federal Insurance Contributions Act (FICA);
- Property Charges for the subject Property;
- estimated utility and maintenance expenses;
- installment account payments;
- any other owned property mortgage obligations (debt and Property Charges);
- revolving credit account payments;
- Alimony and Child Support payments;
- Judgments under payment plans against the Borrower; and
- payments required under any bankruptcy plans.

Where the Borrower benefits from federal, state, or local benefit programs that reduce Borrower expenses, the reduced amounts may be used to calculate monthly expenses, provided that the Mortgagee complies with the documentation requirements of Government Assistance Non-Cash Benefits Income.

ii. Liens Paid Off at Closing

When a lien against the Property is paid off at closing, the monthly payment associated with that lien is not included in the Borrower's monthly expenses.

iii. General Liabilities and Debts

(A) Standard

The Mortgagee must determine the Borrower's monthly expenses by reviewing all debts listed on the credit report, Fannie Mae Form 1009, part VI of the *Uniform Residential Loan Application (URLA)*, and other required documentation.

All applicable monthly expenses must be considered in the monthly expense analysis. Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's monthly expenses unless the Mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's monthly expenses.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, are not required to be included in monthly expenses.

(B) Required Documentation

The Mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source and the Borrower did not incur new debts that were not included in the monthly expenses.

(C) Undisclosed Debt and Inquiries

(1) Standard

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the Mortgagee must:

- verify the actual monthly payment amount;
- include the payment amount in the agreement in the Borrower's monthly liabilities and debt; and
- determine that any unsecured funds borrowed were not/will not be used for the Borrower's settlement requirements.

The Mortgagee must obtain a written explanation from the Borrower for all inquiries shown on the credit report that were made in the last 90 Days.

(2) Required Documentation

The Mortgagee must document all undisclosed debt and support for its analysis of the Borrower's debt.

(D) Federal Debt

(1) Definition

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

(2) Standard

The amount of the required payment must be included in the calculation of the Borrower's monthly expenses.

(3) Required Documentation

The Mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

(E) Alimony, Child Support, and Maintenance

(1) Definition

Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments.

(2) Standard

For Alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Mortgagee's calculation of the Borrower's gross income, the Mortgagee must verify and include the monthly obligation in its calculation of the Borrower's monthly expenses.

Child Support and Maintenance are to be treated as a recurring liability and the Mortgagee must include the monthly obligation in the Borrower's liabilities and monthly expenses.

(3) Required Documentation

The Mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

The Mortgagee must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.

(4) Calculation of Monthly Obligation

The Mortgagee must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(F) Deferred Obligations

(1) Definition

Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(2) Standard

The Mortgagee must verify and include deferred obligations in the calculation of the Borrower's monthly expenses.

(3) Required Documentation

The Mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Mortgagee must obtain evidence of the actual monthly payment obligation, if available.

(4) Calculation of Monthly Obligation

The Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

(G) Student Loans

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's monthly expenses, regardless of the payment type or status of payments.

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment amount from the monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(4) Calculation of Monthly Obligation [Text was deleted in this section.]

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

(H) Installment Loans

(1) Definition

Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of Principal and Interest (P&I). A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

The Mortgagee must include the monthly payment shown on the credit report, loan agreement, or payment statement to calculate the Borrower's monthly expenses.

If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly expenses, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must use the loan agreement or payment statement to document the amount of the monthly payment. If the credit report, loan agreement, or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations section.

(I) Revolving Charge Accounts

(1) Definition

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(2) Standard

The Mortgagee must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the Mortgagee must use the payment shown on the current account statement or 5 percent of the outstanding balance.

(3) Required Documentation

The Mortgagee must use the credit report to document the terms, balance, and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the Mortgagee must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

(J) 30-Day Accounts

(1) Definition

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

(2) Standard

The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that

are paid monthly are not included in the Borrower's monthly expenses. If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the monthly expenses.

(3) Required Documentation

The Mortgagee must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Mortgagee must use the credit report to document the balance and must document that funds are available to pay off the balance.

(K) Business Debt in Borrower's Name

(1) Definition

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the monthly expenses, unless the Mortgagee can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business Tax Returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business Tax Returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(3) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Mortgagee must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash flow analysis of the Borrower's business.

(L) Disputed Derogatory Credit Accounts

(1) Definition

Disputed Derogatory Credit Accounts refer to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(2) Standard

If the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgagee must include a monthly payment in the Borrower's monthly expenses calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use.

Disputed Derogatory Credit Accounts of an NBS in a community property state are not included in the cumulative balance.

(M) Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report

(1) Definition

Non-derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance;
- disputed accounts with late payments aged 24 months or greater; or
- disputed accounts that are current and paid as agreed.

(2) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the monthly expenses being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

(N) Contingent Liabilities

(1) Definition

A Contingent Liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

(2) Standard

The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly expenses unless the Mortgagee verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower, should the other party default or the other legally obligated party has made 12 months of timely payments. When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.

(3) Required Documentation

(a) Mortgage Assumptions

The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months.

(c) Court-Ordered Divorce Decree or Other Court Order

The Mortgagee must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(4) Calculation of Monthly Obligation

The Mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(O) Collection Accounts

(1) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(2) Standard

If the credit reports used in the analysis show cumulative outstanding collection account balances of $2,000 or greater, the Mortgagee must:

- verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds;

- verify that the Borrower has made payment arrangements with the creditor; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's monthly expenses.

(3) Required Documentation

The Mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement.

If the Mortgagee uses 5 percent of the outstanding balance, no documentation is required.

(P) Charge Off Accounts

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

Charge Off Accounts do not need to be included in the Borrower's monthly expenses.

(Q) Obligations Not Considered Debt

Obligations not considered debt include:

- medical collections;
- automatic deductions from savings, when not associated with another type of obligation;
- retirement contributions, such as 401(k) accounts;
- collateralized loans secured by depository accounts;
- child care;
- commuting costs;
- union dues;
- insurance, other than property insurance;
- open accounts with zero balances; and
- voluntary deductions, when not associated with another type of obligation.

(R) Private Savings Clubs

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' monthly expenses.

The Mortgagee must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

(3) Required Documentation

The Mortgagee must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(S) Federal, State, and Local Income Taxes

(1) Definition

Federal, State, and Local Income Taxes refer to taxes imposed by the federal, state, and local governments on the Borrower's Effective Income.

(2) Standard

Federal, state, and local income taxes must be included in monthly expenses.

(3) Required Documentation

If available, Mortgagees must use federal, state, and local tax returns from the most recent tax year to document federal, state, and local income taxes. If tax returns are not available, Mortgagees may rely upon current pay stubs and tax tables.

(T) Utilities and Maintenance Expenses

Mortgagees must rely on the formula established by Department of Veterans Affairs (VA) for estimated maintenance and utilities in all states. Mortgagees should multiply the living area of the Property (square feet) by $0.14.

Mortgagees must use the figure for square feet from the Improvements section on page 1 of the appraisal under Square Feet of Gross Living Area Above Grade.

iv. Property Charges

(A) Property Taxes

Mortgagees must document the amount of current year property taxes, or personal property taxes for Manufactured Homes not taxed as real estate, due from all taxing authorities. Verification of real estate property taxes may be in the form of written statements or online printouts from the taxing authorities, or copies of bills. Verification of personal property taxes for Manufactured Homes not taxed as real estate may be in the form of online printouts from the taxing authority or through copies of bills and canceled checks or other equivalent proof of payment obtained from the Borrower or taxing authority. If the current year's property tax bill is not available, Mortgagees shall calculate monthly expenses based on 1.04 percent of the prior year's tax bill.

Where property taxes are deferred or waived, the amount of the property taxes may be excluded from monthly expenses.

(B) Hazard Insurance

Mortgagees must obtain the current year's declaration sheet of the insurance policy. If the current year's declaration sheet is not available, Mortgagees shall calculate monthly expenses based on 1.04 percent of the prior year's premium.

Where no Hazard Insurance policy was previously in place, Mortgagees shall base the cost of Hazard Insurance upon the insurance quote provided to the Borrower for the cost of Hazard Insurance under the HECM.

(C) Flood Insurance

Mortgagees must obtain the current year's declaration sheet of the insurance policy. If the current year's declaration sheet is not available, Mortgagees shall calculate monthly expenses based on 1.04 percent of the prior year's premium.

Where no Flood Insurance policy was previously in place, Mortgagees shall base the cost of Flood Insurance upon the insurance quote provided to the Borrower for the cost of Flood Insurance under the HECM.

(D) Condominium, PUD, and HOA Fees

Mortgagees must obtain from the appraisal, or from a written statement from the association or its management agent, documentation on the amount of the monthly fees.

(E) Ground Rents

Mortgagees must obtain from the deed, the lessor, or its management agent a written statement documenting the amount of the ground rent payment.

(F) Other Assessments

Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting the amount of any other assessments.

e. Effective Income Analysis (11/10/2026)

i. Definition

Effective Income refers to income that may be used to evaluate a Borrower for a HECM.

Effective Income Analysis refers to the calculation of Effective Income used to calculate Residual Income. Effective Income must be reasonably likely to continue through at least the first three years of the HECM, and meet the specific requirements described below.

Tax Return refers to a U.S. federal income tax return or, for Borrowers who reside in Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa and who are not required to file U.S. federal income taxes, the Mortgagee must obtain the equivalent tax filing for the territory (a territory tax return).

ii. General Income Requirements

The Mortgagee must document the Borrower's income and employment history, verify the accuracy of the amounts of income reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

The Mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's Tax Returns.

Negative income must be subtracted from the Borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

If the Mortgagee can determine that the Borrower's Residual Income meets the applicable standard for their family size and geographic region based on documentation for one or more specific sources described below, it need not pursue documentation for additional sources of income.

If FHA requires Tax Returns as required documentation for any type of Effective Income, the Mortgagee must also analyze the Tax Returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

If the income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document.

(A) Employment Income

(1) Definitions

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2, *Wage and Tax Statement*.

Written Verification of Employment (WVOE) refers to a document-based employment verification obtained through a process involving human intervention, completed by the Mortgagee or a TPV vendor, based on information provided by the Borrower's employer through written communication.

Electronic Verification of Employment (EVOE) refers to a system-generated employment verification obtained through an automated process without human intervention, directly from the employer's payroll system, and obtained from a TPV vendor.

Reverification of Employment refers to a confirmation of a Borrower's current employment status obtained by the Mortgagee or a TPV vendor through independently verified direct contact with the Borrower's employer, which may be conducted verbally or through other communication methods.

(2) Standard

The Mortgagee may use Employment Income as Effective Income in accordance with the standards provided for each type of Employment Income.

(3) Required Documentation

For all Employment Income, the Mortgagee must verify the Borrower's most recent two years of employment and income, and document current employment using either the traditional or alternative method, and past employment as applicable.

(a) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment and income:

- the most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or biweekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings, and a WVOE covering two years; or
- an EVOE covering two years, subject to the following requirements:

- the Borrower has authorized the Mortgagee to verify income and employment; and
- the date of the data contained in the completed verification conforms with FHA requirements at Maximum Age of HECM Documents.

Reverification of Employment must be completed within 10 Days prior to mortgage Disbursement. Electronic reverification employment data must be current within 30 days of the date of the verification.

(b) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

- obtain copies of the pay stubs covering the most recent 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings;
- obtain copies of the original IRS Form W-2s from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Reverification of Employment must be completed within 10 Days prior to the date of the Note. Electronic reverification employment data must be current within 30 days of the date of the verification.

(c) Past Employment Documentation

Direct verification of the Borrower's employment and income history for the previous two years is not required if all of the following conditions are met:

- the current employer confirms a two-year employment history, or a paystub reflects a hiring date;
- only base pay is used to qualify (no Overtime, Bonus, or Tip Income); and
- the Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

If the Borrower has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Mortgagee must obtain one or a combination of the following for the most recent two years to verify the Borrower's employment history:

- IRS Form W-2(s);
- WVOE(s);

- EVOE(s), subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment;
  - the date of the data contained in the completed verification conforms with FHA requirements at Maximum Age of HECM Documents; and/or
- evidence supporting enrollment in school or the military during the most recent two full years.

(B) Primary Employment

(1) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

(2) Standard

The Mortgagee may use primary Employment Income as Effective Income.

(3) Calculation of Effective Income

(a) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

(b) Hourly

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must use the average of the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

(C) Part-Time Employment

(1) Definition

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

(2) Standard

The Mortgagee may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

(3) Calculation of Effective Income

The Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate, the Mortgagee may use a 12-month average of hours at the current pay rate.

(D) Overtime, Bonus, or Tip Income

(1) Definition

Overtime, Bonus, or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(2) Standard

The Mortgagee may use Overtime, Bonus, or Tip Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime, Bonus, or Tip Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime, Bonus, or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(3) Calculation of Effective Income

For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average Overtime, Bonus or Tip Income earned over the previous two years, or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
- the average Overtime, Bonus or Tip Income earned over the previous year.

(E) Seasonal Employment

(1) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(2) Standard

The Mortgagee may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Mortgagee may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

(3) Required Documentation

For seasonal employees with unemployment income, the Mortgagee must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

(4) Calculation of Effective Income

For employees with Employment Income from Seasonal Employment, the Mortgagee must average the income earned over the previous two full years to calculate Effective Income.

(F) Employer Housing Subsidy

(1) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(2) Standard

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

(3) Required Documentation

The Mortgagee must verify and document the existence and the amount of the housing subsidy.

(4) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, the Mortgagee may add the Employer Housing Subsidy to the total Effective Income.

(G) Employed by Family-Owned Business

(1) Definition

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower’s family, but in which the Borrower is not an owner.

(2) Standard

The Mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(3) Required Documentation

The Mortgagee must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business Tax Returns or Schedule K-1 (IRS Form 1065), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the Mortgagee must obtain copies of signed personal Tax Returns or tax transcripts.

(4) Calculation of Effective Income

(a) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

(b) Hourly

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

(H) Commission Income

(1) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(2) Standard

The Mortgagee may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

(3) Required Documentation

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.

(4) Calculation of Effective Income

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- the average Commission Income earned over either:
  - the previous two years; or
  - the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous one year.

(I) Self-Employment Income

(1) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

(2) Standard

(a) Minimum Length of Self-Employment

The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(b) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must document that the business income is now stable.

A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an Extenuating Circumstance, and the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months.

(3) Required Documentation

(a) Individual and Business Tax Returns

The Mortgagee must obtain complete individual Tax Returns for the most recent two years, including all schedules.

In lieu of signed individual or business Tax Returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, IRS Form 4506-C, or IRS Form 8821, and tax transcripts directly from the IRS.

(b) Profit & Loss Statements and Balance Sheets

The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two-year average of Tax Returns, an audited P&L or signed quarterly Tax Return obtained from the IRS is required.

(c) Business Credit Reports

The Mortgagee must obtain a business credit report for all corporations and "S" corporations.

(4) Calculation of Effective Income

The Mortgagee must analyze the Borrower's Tax Returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Appendix 2.0 – Analyzing IRS Forms.

The Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self- Employment Income earned over either:
  - the previous two years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or
- the average gross Self-Employment Income earned over the previous one year.

(J) Additional Required Analysis of Stability of Employment Income

(1) Frequent Changes in Employment

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(2) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document:

- the Borrower has been employed in the current line of work for at least six months at the time of case number assignment; and
- a two-year work history prior to the absence from employment using standard or alternative employment verification.

(3) Returning to Work After Retirement

Mortgagees may consider the income of Borrowers who have returned to work after retirement of more than two years if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment;
- the Borrower intends to continue working; and
- the Borrower's employer expects the Borrower's employment to continue.

(4) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower meets the applicable Residual Income standard for their family size and geographic region, taking into account any reduction of income due to the circumstance.

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with Acceptable Sources of Funds used to supplement the Borrower's income through intended date of return to work with current employer.

(K) Other Sources of Effective Income

(1) Disability Benefits

(a) Definition

Disability Benefits refer to benefits received from the SSA, VA, or a private disability insurance provider.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(i) Social Security Disability

For Social Security Disability income, including Supplemental Security Income (SSI), the Mortgagee must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

(ii) Department of Veterans Affairs Disability

For VA disability benefits, the Mortgagee must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

*(iii)*Private Disability

For private disability benefits, the Mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(c) Calculation of Effective Income

The Mortgagee must use the most recent amount of benefits received to calculate Effective Income.

(2) Alimony, Child Support, and Maintenance Income

(a) Definition

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a noncustodial parent of the Borrower's minor dependent.

(b) Required Documentation

The Mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement, or court order, the Mortgagee must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The Mortgagee must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or Tax Returns.

The Mortgagee must provide evidence that the claimed income will continue for at least three years. The Mortgagee may use the front and pertinent pages of the divorce decree, settlement agreement, or court order showing the financial details.

(c) Calculation of Effective Income

When using a final divorce decree, legal separation agreement, or court order, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent three months, the Mortgagee may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.

If the Alimony, Child Support, and Maintenance Income have not been consistently received for the most recent three months if court ordered or six months if voluntary, the Mortgagee must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support, and Maintenance Income have been received for less than two years, the Mortgagee must use the average over the time of receipt.

(3) Military Income

(a) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The Mortgagee may not use education benefits as Effective Income.

(b) Required Documentation

The Mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the HECM, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(c) Calculation of Effective Income

The Mortgagee must use the current amount of Military Income received to calculate Effective Income.

(4) Other Public Assistance

(a) Definition

Public Assistance refers to income received from government assistance programs.

(b) Required Documentation

Mortgagees must verify and document the income received from the government agency.

If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue.

(c) Calculation of Effective Income

The Mortgagee must use the current rate of Public Assistance received to calculate Effective Income.

(5) Automobile Allowances

(a) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(b) Required Documentation

The Mortgagee must verify and document the Automobile Allowance received from the employer for the previous two years.

(c) Calculation of Effective Income

The Mortgagee must use the full amount of the Automobile Allowance to calculate Effective Income.

(6) Retirement Income

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(a) Social Security Income

(i) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(ii) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of income from the SSA.

For SSI, the Mortgagee must obtain any one of the following documents:

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S.

In addition to verification of income, the Mortgagee must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee must consider the income effective and reasonably likely to continue. The Mortgagee may not request additional documentation from the Borrower to demonstrate continuance of SSA income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(iii) Calculation of Effective Income

The Mortgagee must use the current amount of Social Security Income received to calculate Effective Income.

(b) Pension

(i) Definition

Pension refers to income received from the Borrower's former employer(s).

(ii) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

The Mortgagee must obtain any one of the following documents:

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's Pension/retirement letter from the former employer.

(iii) Calculation of Effective Income

The Mortgagee must use the current amount of Pension income received to calculate Effective Income. If the source of the Pension income is a

municipal, state, or the federal government, the Mortgagee must consider the income reasonably likely to continue. The Mortgagee is not required to request additional documentation from the Borrower to demonstrate continuance of income from government Pension income.

(c) Individual Retirement Account and 401(k)

(i) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(ii) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

The Mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income.

(iii) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

(7) Rental Income

(a) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(b) Rental Income Received from the Subject Property

(i) Standard

The Mortgagee may consider Rental Income from existing and prospective renters if documented in accordance with the following requirements.

Rental Income from the subject Property may be considered Effective Income when the Property is a one-unit dwelling with an ADU or two- to four-unit dwelling.

No income from commercial space may be included in Rental Income calculations.

(ii) Required Documentation

Required documentation varies depending upon the length of time the Borrower has owned the Property.

Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

Two- to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

One-Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective leases.

One-Unit with an Accessory Dwelling Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective leases.

History of Rental Income

Where the Borrower has a history of Rental Income from the subject Property since the previous tax filing, the Mortgagee must verify and document the existing Rental Income by obtaining the existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student,

seasonal or military renters, or property rehabilitation), and the Borrower's most recent Tax Returns, including Schedule E, from the previous two years.

For Properties owned less than two years, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure, or other legal document.

(iii) Calculation of Effective Income

The Mortgagee must add the net subject Property Rental Income to the Borrower's gross income to calculate Effective Income.

Limited or No History of Rental Income

To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Mortgagee must use 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

One-Unit with an Accessory Dwelling Unit

The amount of the Rental Income from an ADU used as Effective Income must not exceed 30 percent of the total monthly Effective Income.

History of Rental Income

The Mortgagee must calculate the Rental Income by averaging the amount shown on the Schedule E.

Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.

(c) Rental Income from Other Real Estate Holdings

(i) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met.

If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence.

(ii) Required Documentation

The Mortgagee must obtain a lease agreement of at least one year's duration after the HECM is closed and evidence of the payment of the security deposit or first month's rent.

Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income for the Property since the previous tax filing, including Property being vacated by the Borrower, the Mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

One Unit or One-Unit with an Accessory Dwelling Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, and a Fannie Mae Form 1007/Freddie Mac Form 1000, *Single-Family Comparable Rent Schedule*, showing fair market rent and, if available, the prospective lease.

History of Rental Income

The Mortgagee must obtain the Borrower's last two years' Tax Returns with Schedule E.

(iii) Calculation of Effective Net Rental Income

Limited or No History of Rental Income

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the Principal, Interest, Taxes, and Insurance (PITI) from 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

History of Net Rental Income

The Mortgagee must calculate the net Rental Income by averaging the amount shown on the Schedule E, provided the Borrower continues to own all Properties included on the Schedule E.

Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

If the Property has been owned for less than two years, the Mortgagee must:

- annualize the Rental Income for the length of time the Property has been owned; and
- document the date of acquisition by providing the deed, Closing Disclosure, or other legal document.

(d) Boarders of the Subject Property

(i) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit. A renter of an ADU is not a Boarder.

(ii) Standard

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the Tax Return and the Borrower is currently receiving Boarder income.

(iii) Required Documentation

The Mortgagee must obtain two years of the Borrower's Tax Returns evidencing income from Boarders and the current lease.

(iv) Calculation of Effective Income

The Mortgagee must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(8) Investment Income

(a) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's Investment Income by obtaining Tax Returns for the previous two years and the most recent account statement.

(c) Calculation of Effective Income

The Mortgagee must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The Mortgagee must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property or where the Borrower is otherwise required to bring cash to closing from the Borrower's liquid assets prior to calculating any interest or dividend income.

(9) Capital Gains and Losses

(a) Definitions

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond, or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond, or real estate, where the amount realized on the disposition is less than the purchase price.

(b) Standard

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

(c) Required Documentation

Three years' Tax Returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as Effective Income; or
- consistently shows a loss, it must be deducted from the total income.

(10) Expected Income

(a) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(b) Standard

The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(c) Required Documentation

The Mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the Mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(d) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. The Mortgagee must also verify that the Borrower will have sufficient income or Cash Reserves to meet their obligations between HECM closing and the beginning of the receipt of the income.

(11) Trust Income

(a) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(b) Required Documentation

The Mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The Mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The Mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

(c) Calculation of Effective Income

The Mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(12) Annuities or Similar

(a) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(b) Required Documentation

The Mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the HECM. The Mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

(c) Calculation of Effective Income

The Mortgagee must use the current rate of the annuity to calculate Effective Income.

The Mortgagee must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.

(13) Notes Receivable Income

(a) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

(b) Required Documentation

The Mortgagee must verify and document the existence of the Note. The Mortgagee must also verify and document that payments have been consistently received for the previous 12 months by obtaining Tax Returns, deposit slips or canceled checks and that such payments are guaranteed to continue for the first three years of the HECM.

(c) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income

fluctuates, the Mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(14) Nontaxable Income

(a) Definition

Nontaxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- Section 8 Housing Choice Vouchers;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(b) Required Documentation

The Mortgagee must document and support the amount of income from nontaxable sources.

(c) Calculation of Effective Income

Mortgagees may add the amount of Nontaxable Income to Effective Income. However, because the Residual Income analysis will take into account federal taxes, it will be reflected in the expense analysis for Residual Income. Nontaxable Income, therefore, may not be "Grossed Up."

The Mortgagee may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

(15) Government Assistance Non-Cash Benefits Income

(a) Definition

Government Assistance Non-Cash Benefits Income refers to non-cash benefits being received by the Borrower through federal, state, or local government programs, e.g., Supplemental Nutrition Assistance Program (SNAP), energy assistance, etc.

(b) Required Documentation

In determining whether such benefits may be counted as income, the Mortgagee must:

- verify that the benefits are being received at the time of loan application, or that an award letter has been issued, and benefits will begin to be received within 60 Days. Mortgagees may not count benefits for which the Borrower is potentially eligible and intends to apply;
- verify that the benefits are not subject to any stated termination date other than one related to the death of the Borrower or the sale of the Property; and
- verify that approval of the HECM will not jeopardize continued eligibility for the benefits, e.g., HECM proceeds would trigger disqualification based on program income or asset requirements.

(c) Calculation of Effective Income

Mortgagees may add the amount of the monthly non-cash benefits to Effective Income.

(16) Foster Care Payment

(a) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(b) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(c) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(d) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:

- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

(17) Foreign Income

(a) Definition

Foreign Income refers to income received by a Borrower from sources located outside of the United States by a foreign corporation or a foreign government and is paid in foreign currency.

(b) Standard

The Mortgagee may use Foreign Income as Effective Income if the Borrower has received this income for the previous two years and it is reasonably likely to continue.

(c) Required Documentation

The Mortgagee must obtain complete individual Tax Returns showing Foreign Income for the most recent two years, including all schedules.

For all Foreign Income, the Mortgagee must satisfy the requirements listed based on source and type of income as outlined in Effective Income Analysis.

If the Foreign Income documents are not received in English, the Mortgagee must provide a complete and accurate translation for each document and convert foreign currency to U.S. dollars.

(d) Calculation of Effective Income

The Mortgagee must analyze the Borrower's Tax Returns to determine gross Foreign Income. The Mortgagee must average the Foreign Income over the previous two years to calculate Effective Income.

(18) Imputed Income from Asset Dissipation

(a) Definitions

Imputed Income from Asset Dissipation refers to the amount of monthly income that could be generated if liquid assets were dissipated and converted to cash.

Liquid Assets refers to assets that can be converted to cash within one year without payment of an IRS penalty.

(b) Required Documentation

Mortgagees must document the source of the asset in accordance with Asset Requirements. Mortgagees may not count the same asset twice, i.e., as a source of interest or other income and as imputed income from the dissipation of the asset. The Mortgagee must also subtract any funds from the Borrower's liquid assets that the Borrower is required to bring to closing prior to calculating any imputed income from asset dissipation.

If the asset is jointly held with any other party not obligated on the Mortgage, the asset may be counted provided that the Borrower provides documentation that the Borrower has unrestricted access to that asset.

(c) Calculation of Effective Income

Mortgagees must calculate the combined value of assets and calculate income from these sources by:

- calculating the value of the assets by reducing any taxable assets by the lesser of the Borrower's actual tax rate based on Tax Returns from the prior tax year or 15 percent. No adjustment is required if the Borrower does not have a federal tax obligation; and
- dividing the total value by the remaining life expectancy of the youngest Borrower (in months) from the loan period to Appendix 9.0 – Assumed Loan Periods for Computations of Total Annual Loan Cost Rates. If the youngest Borrower's next birthday is less than 183 Days after the estimated date of closing, round up the age to the nearest whole year.

f. Residual Income Analysis (04/29/2024)

i. Definition

Residual Income refers to the total monthly Effective Income from all sources described in Effective Income Analysis for the Borrowers obligated on the Mortgage, minus the total monthly expenses from all sources described in Monthly Expense Analysis for the Borrowers obligated on the Mortgage.

ii. Standard

The Borrower must have Residual Income at least equal to the applicable amount for the Borrower's family size and geographic region on the Table of Residual Incomes by Region. Where a Borrower's Residual Income is less than the applicable standard, see the Residual Income Shortfall section.

(A) Calculating Family Size

Count all members of the household, without regard to the nature of the relationship, when determining family size, including an Eligible NBS and Other Non-Borrowing Household Members.

(1) Reducing Family Size

An Eligible NBS or Other Non-Borrowing Household Member may be eliminated from family size provided that:

- they authorize the Mortgagee to collect information on their Effective Income and Monthly Expenses;
- they provide consent to the Mortgagee to verify their SSN and obtain tax verification forms;
- the Mortgagee meets the requirements associated with the Privacy Act; and
- the excluded household members' Residual Income meets the standard for a one-person family size.

(2) Limitations on the Use of the One-Person Family Size

The one-person family size may only be used for a Borrower where:

- the *RLARM* indicates that the Borrower is single or unmarried;
- for Borrowers required to file Tax Returns:
  - the results of an IRS Form 4506-C, or verification or copies of Tax Returns confirm that the Borrower files as a single person; or
- for Borrowers not required to file Tax Returns:
  - the property title, credit report, or other information supports the marital status claimed by the Borrower; and
- the Borrower identifies as unmarried in the certification regarding marital status.

This documentation is not required where the Eligible NBS or Other Non-Borrowing Household Member has been excluded from family size based on the criteria defined in this section.

(3) Residual Income of Eligible Non-Borrowing Spouse Used as Compensating Factor

If income from an Eligible NBS is cited as a Compensating Factor, the Mortgagee may not eliminate the Eligible NBS when calculating family size. See Reducing Family Size.

Where income from an Eligible NBS will be used as a Compensating Factor or to reduce family size, the Eligible NBS must also be required to sign the appropriate IRS form to obtain Tax Returns directly from the IRS.

(B) Required Documentation

To reduce family size, the Residual Income for the Eligible NBS or Other Non-Borrowing Household Member must meet the same documentation and verification standards as required for the Borrower's Effective Income Analysis, Monthly Expense Analysis, and Residual Income analysis.

Imputed income from asset dissipation may not be included.

iii. Table of Residual Incomes by Region

To determine the Residual Income standard, Mortgagees must select the applicable family size and region from the table below.

Table of Residual Incomes by Region				
Family Size	**Northeast**	**Midwest**	**South**	**West**
1	$540	$529	$529	$589
2	$906	$886	$886	$998
3	$946	$927	$927	$1,031
4 or more	$1,066	$1,041	$1,041	$1,160

The regions on the Table of Residual Incomes by Region include the following states:

Region	States
Northeast	CT, MA, ME, NH, NJ, NY, PA, RI, VT
Midwest	IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
South	AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC, TN, TX, VA, VI, WV
West	AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

iv. Residual Income Shortfall

Where a Borrower's Residual Income is less than the applicable standard, the underwriter must document that the Borrower satisfies one of the criteria below. The Borrower:

- effectively meets the applicable Residual Income standard with the use of one or more acceptable Income Compensating Factors; or
- meets the standard for citing one or more Non-income Compensating Factors.

If the Borrower does not meet the criteria above, then the Mortgagee must require a Partially Funded LESA.

Extenuating Circumstances may not be used to compensate for a Residual Income shortfall.

v. Acceptable Compensating Factors

(A) Definitions

Compensating Factors refer to factors that may be used to justify approval of HECMs where the Borrower does not meet the Residual Income standard.

Income Compensating Factors refer to income from the following sources: (1) Overtime, Bonus, or Tip Income or Seasonal and Part-Time Employment; (2) Eligible NBS income; (3) expected SSI or pension income; and (4) imputed income from the HECM.

Non-income Compensating Factors refer to other Borrower financial characteristics and include the following: (1) property charge payment history, (2) access to other credit, (3) assets equal to Projected Life Expectancy Property Charges, and (4) HECM sufficient to pay off debts.

(B) Standard

When citing a Compensating Factor, the Mortgagee must document the applicable requirements below.

(1) Income Compensating Factors

Mortgagees may combine one or more income Compensating Factors.

To use income Compensating Factors, the Mortgagee must verify the cited income Compensating Factor(s) will result in the Borrower effectively meeting the Residual Income standard. If applicable, the Mortgagee must take into consideration the impact of a Fully Funded LESA that may effectively reduce the Borrower's monthly expenses when determining whether the Borrower will effectively meet the Residual Income standard.

Mortgagees may not use income Compensating Factors to reach 80 percent or more of the Residual Income standard in order to cite non-income Compensating Factors.

(a) Overtime, Seasonal, Part-Time, Bonus, or Tip Income

To cite Overtime, Bonus, or Tip Income, or Part-Time or Seasonal Employment that is not reflected in Effective Income as a Compensating Factor, the Mortgagee must verify and document that the Borrower has received this income for at least six months, and it will likely continue.

Overtime, Bonus, or Tip Income, or Part-Time or Seasonal Employment from an Eligible NBS may not be used for this Compensating Factor.

(b) Eligible Non-Borrowing Spouse Income

To cite income from an Eligible NBS that is not reflected in Effective Income as a Compensating Factor, the Mortgagee must:

- verify and obtain the Eligible NBS' signature on the appropriate IRS form to obtain Tax Returns directly from the IRS; and
- verify and document that the Eligible NBS has received this income for at least six months, and it will likely continue.

(c) Expected SSI or Pension Income

To cite income from Expected SSI or Pension that is not reflected in Effective Income as a Compensating Factor, the Mortgagee must verify and document that the Borrower has received an award letter stating that the Borrower will begin receiving Pension or SSI within the next 12 months.

(d) Imputed Income from HECM

To cite Imputed Income from a HECM that is not reflected in Effective Income as a Compensating Factor, the Mortgagee must verify and document the additional income that would result from dissipating available HECM proceeds remaining after closing, based on the original Principal Limit less any required Repair Set-Aside, LESA, Servicing Fee Set-Aside, and Disbursements for Mandatory Obligations.

(2) Non-income Compensating Factors

To cite non-income Compensating Factors, the Mortgagee must determine that the Borrower's Residual Income is 80 percent or more of the applicable Residual Income standard and document that the specific criteria described for the individual Compensating Factor have been met.

(a) Property Charge Payment History

To cite property charge payment history as a Compensating Factor, the Mortgagee must determine that:

- the Borrower has paid their own Property Charges directly for at least the last 24 months (i.e., the Property Charges were not paid by a Mortgagee from an escrow account or by another party) and meets the standard in Satisfactory Property Charge Payment History;
- the Borrower has made all property charge payments without incurring penalties during the last 24 months; and
- the Borrower's current income is not less than the income during the previous 24 months.

(b) Access to Other Credit

To cite access to other credit as a Compensating Factor, the Mortgagee must determine that:

- the Borrower's housing payment for the Property to secure the HECM is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower has paid off all these accounts and credit lines in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, who have no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months do not qualify under these criteria. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under these criteria.

(c) Assets Equal to Life Expectancy Property Charges

To cite assets equal to life expectancy property charges as a Compensating Factor, the Mortgagee must determine that the Borrower has assets (excluding HECM proceeds) equivalent to the Projected Life Expectancy Property Charges that were not dissipated or considered in the Residual Income calculation.

(d) HECM Sufficient to Pay Off Debts

To cite HECM sufficient to pay off debts as a Compensating Factor, the Mortgagee must determine that HECM proceeds remaining after closing (based on the original Principal Limit less any required Repair Set-Aside, LESA, Servicing Fee Set-Aside, and Disbursements for Mandatory Obligations) that were not dissipated and counted as income are sufficient to pay off revolving and installment debt, including revolving and installment accounts in collection, that would reduce monthly payments to the extent that Residual Income would meet the Residual Income standard.

g. Asset Requirements (08/19/2024)

i. General Asset Requirements

When calculating sources of funds available to meet closing requirements, the Mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

The Mortgagee must document all funds that are used to calculate borrower funds that are required to close a HECM, including those to pay:

- Mandatory Obligations;
- costs outside of closing;
- other required cash from the Borrower to close the transaction; or
- additional funds the Borrower brings to closing to reduce Mandatory Obligations.

(A) Determining the Amount Needed for Closing

The amount of cash needed by the Borrower to close an FHA-insured HECM is the difference between Mandatory Obligations and the Principal Limit.

(B) Mortgagee Responsibility for Estimating Closing Cost Requirements

The Mortgagee must determine the total amount of cash that the Borrower must provide at HECM closing.

(1) Loan Origination Fees and Other Closing Costs

The Mortgagee may charge a reasonable loan origination fee.

The Mortgagee may charge and collect from Borrowers those customary and reasonable closing costs and prepaid items necessary to close the HECM. Charges may not exceed the actual costs.

(2) Initial Mortgage Insurance Premium Amounts

Any IMIP amounts paid in cash are added to the total cash closing requirements.

(3) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's closing requirements.

(4) Types of Prepaid Items

Prepaid items may include flood and hazard insurance premiums, MIPs, and real estate taxes. They must comply with the requirements of the CFPB.

ii. Acceptable Sources of Funds

The Mortgagee must verify liquid assets from acceptable sources used to calculate availability of funds required to close. Mortgagees may not count the same asset twice (i.e., as a source of imputed income to support Residual Income and as a source of cash to close).

(A) Checking and Savings Accounts

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

The Mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts. The Mortgagee must verify and document the source of deposits for recently opened accounts and recent individual deposits of more than 1 percent of the MCA.

(3) Required Documentation

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

(a) Traditional Documentation

The Mortgagee must obtain:

- a written Verification of Deposit (VOD) and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month for a minimum of one month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

(b) Alternative Documentation

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Mortgagee must obtain statement(s) for the most recent two months.

(B) Cash on Hand

(1) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

The Mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

(3) Required Documentation

The Mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

(C) Retirement Accounts

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

The Mortgagee may include the value of assets from the Borrower's retirement accounts, which includes IRAs, thrift savings plans, 401(k) plans, and Keogh accounts. If the Borrower has an existing loan, the Mortgagee must deduct the outstanding loan balance from the value of the retirement accounts.

(3) Required Documentation

The Mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(D) Stocks and Bonds

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

The Mortgagee must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the Mortgagee must determine the current value of the stocks and bonds through TPV. Government-issued savings bonds are valued at the original purchase price unless the Mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account, the Mortgagee must obtain a copy of each stock or bond certificate.

(E) Private Savings Clubs

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

The Mortgagee may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The Mortgagee must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

The Mortgagee must obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.

(F) Gifts

(1) Definition

Gifts refer to the contributions of cash with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization; or
- a governmental agency or that has a program providing homeownership assistance to:
  - low- or moderate-income families; or
  - first-time homebuyers.

(b) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

(3) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Mortgagee must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below.

- For Gifts that will be verified prior to settlement, the Mortgagee must obtain one of the following:
  - the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account;
  - a copy of the donor's canceled check and evidence of deposit into the Borrower's account;
  - a copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
  - evidence of the electronic transfer of funds from the donor's account to the Borrower's account.
- For Gifts that will be verified at settlement, the Mortgagee must obtain one of the following evidencing payment to the settlement agent:
  - evidence of electronic transfer of funds from the donor's account;

- bank certified check;
- cashier's check; or
- other official bank check .

- For Gifts of land, the Mortgagee must obtain:
  - proof of ownership by the donor; and
  - evidence of the transfer of title to the Borrower.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(G) Sale of Real Property

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as a source of acceptable funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Closing Disclosure or similar legal document.

The Mortgagee must also verify and document that it is an Arm's Length Transaction, and that the Borrower is entitled to the Net Sale Proceeds.

(H) Sale of Personal Property

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles.

(2) Standard

The Mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain cash for closing.

The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(I) Disaster Relief Grants

(1) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(2) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

(J) Employer Assistance

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the monetary investment. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

The Mortgagee may allow the net proceeds (the relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, the Mortgagee must obtain an executed buyout agreement signed by all parties and a receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The Mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

The Mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing.

h. Required Documentation (04/29/2024)

The Mortgagee must document its assessment of required financial information on a Financial Assessment Worksheet that has been signed by the underwriter. The Mortgagee must submit all documentation used to perform the financial assessment in the HECM case binder.

i. Final HECM Decision (04/29/2024)

The underwriter is ultimately responsible for making a HECM decision on behalf of their Direct Endorsement Mortgagee in compliance with HUD requirements.

In making the final HECM decision, the underwriter must evaluate the results of the financial assessment and determine whether, and under what conditions, the Borrower meets FHA eligibility criteria.

To determine whether the HECM represents a sustainable solution for the Borrower's financial circumstances, the underwriter must evaluate whether the Borrower meets Residual Income, credit history, and property charge history requirements, including the use of Extenuating Circumstances and Compensating Factors.

The Mortgagee must not use FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard to perform the financial assessment for HECMs.

i. Duty of Care/Due Diligence

The underwriter must exercise the same level of care that would be used in approving a HECM entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured HECM.

ii. Specific Underwriter Responsibilities

The underwriter must review each HECM as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to meet their financial obligations and comply with the terms of the HECM. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to meet their financial obligations and comply with the terms of the HECM.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's ability to meet their financial obligations and comply with the terms of the HECM, and the overall acceptability of the HECM for FHA insurance;
- identify any inconsistencies in information obtained by the Mortgagee in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and processing of a HECM; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

iii. Credit and Property Charge Payment History

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report. See Credit History Review Requirements and Property Charge Payment History Review Requirements.

The lack of traditional credit history or the Borrower's decision to not use credit may not be used as the basis for denying the HECM application.

Where the Borrower's credit and/or property charge payment history does not meet the criteria described in Satisfactory Credit History and Satisfactory Property Charge Payment History, the Mortgagee must either document Extenuating Circumstances, or require a Fully Funded LESA.

Compensating Factors cannot be used to compensate for any derogatory credit.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the HECM transaction.

iv. Monthly Expenses

The underwriter must calculate the Borrower's monthly expenses and verify that they have been supported with proper documentation. See Monthly Expense Analysis.

v. Effective Income

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation. See Effective Income Analysis.

vi. Residual Income

The underwriter must calculate the Borrower's Residual Income and verify that it is supported with proper documentation. See Residual Income Analysis.

vii. Life Expectancy Property Charges

(A) Definitions

Projected Life Expectancy Property Charges refer to the amount of HECM proceeds necessary to pay property taxes, Hazard Insurance, and Flood Insurance, if applicable, based on the life expectancy of the youngest Borrower.

Life Expectancy Set-Aside (LESA) refers to a Set-Aside account that is established for the payment of property taxes, Hazard Insurance, and, if applicable, Flood Insurance until expended or while the HECM is not in Due and Payable status. LESA funds cannot be held in an escrow account.

Property Charge Set-Aside refers to a portion of a Borrower's Principal Limit that is designated for payment of Property Charges. A Property Charge Set-Aside can result from a Borrower being required to establish a Life Expectancy Set-Aside (LESA) or when a Borrower elects to have the Mortgagee pay Property Charges on their behalf.

Fully Funded Life Expectancy Set-Aside (LESA) refers to a portion of the Borrower's Principal Limit that is designated for payment of property taxes, including special assessments levied by municipalities or state law, Hazard Insurance, and, if applicable, Flood Insurance for the estimated remainder of the Borrower's life expectancy. With a Fully Funded LESA, the Mortgagee makes payments directly to the billing agency. A Borrower can voluntarily elect to have a Property Charge Set-Aside created at closing. If the Borrower chooses this option, the Property Charge Set-Aside will function as though it were a Fully Funded LESA.

Partially Funded Life Expectancy Set-Aside (LESA) refers to a portion of the Borrower's Principal Limit that is designated for partial payment of property taxes, Hazard Insurance, and, if applicable, Flood Insurance for the estimated remainder of the Borrower's life expectancy. With a Partially Funded LESA, the Mortgagee makes payments to the Borrower who is responsible for the remaining amounts owed and delivering the full payment to the billing agency.

(B) Standard

The underwriter must calculate the Projected Life Expectancy Property Charges for all HECMs, regardless of whether a LESA is required or not. The underwriter must determine if the Borrower is required to use HECM proceeds to pay for Property Charges from a Fully Funded or Partially Funded LESA.

Where the Mortgagee will pay Property Charges from a Fully Funded LESA, there will be an effective reduction in the Borrower's monthly expenses. Where the amount of Property Charges to be paid through the Fully Funded LESA is such that the Borrower will still fall significantly short of the Residual Income standard, the approval of a HECM, even with a Fully Funded LESA, may not represent a sustainable solution for the Borrower's financial circumstances.

(1) Fully Funded LESA

Where the Mortgagee determines the Borrower has not demonstrated the willingness to meet their financial obligations as stated in Satisfactory Credit History and Satisfactory Property Charge Payment History and no Extenuating Circumstances can be documented, the Mortgagee must, at a minimum, require a Fully Funded LESA.

Through the Fully Funded LESA the Mortgagee will use HECM proceeds to pay property taxes and insurance premiums on behalf of the Borrower. The Borrower remains responsible for timely payment of all other Property Charges.

(2) Partially Funded LESA

Where the Mortgagee determines the Borrower has demonstrated the willingness to meet their financial obligations as stated in Satisfactory Credit History and Satisfactory Property Charge Payment History but does not meet the Residual Income Standard and no Compensating Factors can be documented, the Mortgagee must, at a minimum, require a Partially Funded LESA.

The Mortgagee must determine whether the Partially Funded LESA will provide sufficient funds that will result in the Borrower meeting the Residual Income standard. If the establishment of the Partially Funded LESA will not result in the Borrower meeting the Residual Income standard, then the HECM is not a sustainable solution.

A Partially Funded LESA is not required if the Borrower voluntarily requests a Fully Funded LESA.

If the amount of the Partially Funded LESA is greater than 75 percent of the Projected Life Expectancy Property Charges, a Fully Funded LESA must be required.

Through the Partially Funded LESA, the Borrower will receive semiannual payments from HECM proceeds to pay property taxes and insurance premiums. The Borrower remains responsible for timely payment of all Property Charges.

(3) Voluntary Fully Funded LESA

If a Partially or Fully Funded LESA is not required, the Borrower may voluntarily request a Fully Funded LESA to pay their property taxes and insurance premiums. If a Partially Funded LESA is required, the Borrower may voluntarily request a Fully Funded LESA. See Voluntary Property Charge Funding Options.

(4) Calculation for Projected Life Expectancy Property Charges

Mortgagees must calculate Projected Life Expectancy Property Charges for each HECM using:

- 120 percent of the projected sum of:
  - current property taxes;
  - Hazard Insurance premiums; and
  - Flood Insurance premiums;
- the HECM Expected Rate;
- the annual MIP rate; and
- the life expectancy of the youngest Borrower, with the Borrower age rounded up to the nearest whole year if the next birthday is less than 183 Days after the estimated date of closing.

The formula used to calculate Projected Life Expectancy Property Charges is:

$$\{1.2 \times (PC \div 12)\} \times \{(1 + c)^{m+1} - (1 + c)\} \div \{c \times (1 + c)^{m}\}$$

PC (Property Charges) divided by 12 is the current total monthly Property Charge for property taxes, Hazard Insurance, and Flood Insurance.

The current total monthly Property Charge is multiplied by 1.2 to take into account expected increases in property taxes and Hazard and Flood Insurance over the life expectancy of the youngest Borrower.

c is the monthly compounding rate which is defined as the Expected Rate plus the annual MIP rate divided by 12. The Expected Rate must be the same rate that is used to determine the Principal Limit.

m is the Total Annual Loan Cost (TALC) life expectancy in total years of the youngest Borrower, with the Borrower age rounded up to the nearest whole year if the next birthday is less than 183 Days after the estimated date of closing, multiplied by 12 (e.g., for a 74-year-old Borrower whose birthday is more than 183 Days after the estimated date of closing, TALC life expectancy is 12 years multiplied by 12 months, which equals 144).

(5) Calculation for Fully Funded LESA

The formula to calculate the amount of the Fully Funded LESA is the same as the Projected Life Expectancy Property Charges.

(6) Calculation for Partially Funded LESA

The formula used to calculate the amount of a Partially Funded LESA is:

$(1.2 \times \text{MRIS}) \times \{(1 + c)^{m+1} - (1 + c)\} \div \{c \times (1 + c)^{m}\}$

Monthly Residual Income Shortfall (MRIS) is the difference between the Borrower's monthly Residual Income and the applicable amount of Residual Income for the Borrower's geographic region and family size, based on the Table of Residual Incomes by Region.

m is the TALC life expectancy in total years of the youngest Borrower, with the Borrower age rounded up to the nearest whole year if the next birthday is less than 183 Days after the estimated date of closing, multiplied by 12 (e.g., for a 75-year-old Borrower whose birthday is less than 183 Days from the estimated date of closing, TALC life expectancy equals 132, which is 11 years multiplied by 12 months).

c is the monthly compounding rate which is defined as the Expected Rate plus the annual MIP rate divided by 12. The Expected Rate must be the same rate that is used to determine the Principal Limit.

The MRIS is multiplied by 1.2 to take into account expected increases in property taxes and Hazard and Flood Insurance over the life expectancy of the youngest Borrower.

(7) Life Expectancy Set-Aside Growth Rate

All LESAs increase each month at a rate equal to one-twelfth of the sum of the Note rate plus the annual MIP rate from the date the loan is funded.

The LESA amount is determined at origination and the remaining LESA balance is adjusted monthly by applying the following formula:

$$LESA\ Balance_{current\ month} = LESA\ Balance_{prior\ month}(1 + d) - TMLD$$

$$d = \frac{(Note\ rate + Annual\ MIP)}{12}$$

LESA $Balance_{current\ month}$ is the LESA balance in the current month.

LESA $Balance_{prior\ month}$ is the LESA balance in the prior month.

d is the LESA growth rate, which is one-twelfth of the sum of the Note rate plus the annual MIP rate.

TMLD is the LESA monthly distribution in the current month.

(8) Fully Funded LESA Information to the Borrower

The Mortgagee must inform the Borrower of the following:

- funds will be used to pay the taxing authority or insurance carrier directly;
- the Mortgagee is responsible for making timely payments to the taxing authority or insurance carrier when funds are sufficient;
- the projected amount of funds required to cover the LESA charges over the estimated life expectancy of the youngest Borrower may be insufficient to cover LESA charges for the full length of that specified amount of time;
- no funds will be available during any applicable Deferral Period for an Eligible NBS; and
- the Borrower is responsible for the payment of all Property Charges, including the LESA charges, over the life of the HECM when funds are insufficient or the balance of the LESA is zero.

For additional Property Charge Set-Aside requirements, see Property Charge Set-Aside in the HECM Servicing and Loss Mitigation section.

(9) Partially Funded LESA Information to the Borrower

The Mortgagee must inform the Borrower of the following:

- the Borrower will receive semiannual payments from the Set-Aside, which must be used to pay the taxing authority and/or insurance carrier;
- the Borrower is responsible for making timely payments to the taxing authority and/or insurance carrier over the life of the HECM;
- the projected amount of funds required to cover defined Property Charges over the estimated life expectancy of the youngest Borrower and the income assumptions used to project semiannual distributions to the Borrower may be insufficient to cover LESA charges for the full length of that specified amount of time;
- no funds will be available during any applicable Deferral Period for an Eligible NBS; and

- the Borrower will no longer receive semiannual payments and will continue to be responsible for the payment of all Property Charges, including the LESA charges, over the life of the HECM when funds are insufficient or the balance of the LESA is zero.

For additional Property Charge Set-Aside requirements, see Property Charge Set-Aside in the HECM Servicing and Loss Mitigation section.

(10) Voluntary Property Charge Funding Options

For adjustable rate HECMs, if the Mortgagee does not require a LESA, the Borrower must inform the Mortgagee of the manner in which to pay Property Charges. The Borrower may:

- elect to have a Fully Funded LESA;
- elect to have the Mortgagee pay such charges by withholding funds from monthly payments due to the Borrower or by charging such funds to a line of credit; or
- elect to be responsible for independent payment of all Property Charges.

For fixed rate HECMs, if the Mortgagee does not require a LESA, the Borrower must inform the Mortgagee of the manner in which to pay Property Charges. The Borrower may:

- elect to have a Fully Funded LESA; or
- elect to be responsible for independent payment of all Property Charges.

The Borrower may not cancel any voluntary election property charge payment option. If the HECM proceeds are insufficient to pay Property Charges, the Borrower must pay all Property Charges, even though the Borrower elected payment to be made by the Mortgagee. For additional Property Charge Set-Aside requirements, see Property Charge Set-Aside in the HECM Servicing and Loss Mitigation section.

(C) Required Documentation

Mortgagees must provide documented reasons for the amount a LESA has been funded and for approving the HECM when Borrowers do not meet the standards for Satisfactory Credit History, Satisfactory Property Charge Payment History, and Residual Income.

viii. Assets

The underwriter must review the assets of a Borrower and verify that they have been supported with the proper documentation. See Asset Requirements.

ix. Verifying Initial Mortgage Insurance Premium and Maximum Claim Amount

The underwriter must review the IMIP and MCA and verify that they have been supported with the proper documentation.

x. Servicing Fees

(A) Definitions

Servicing Fee refers to the monthly amount charged by the Mortgagee when the cost of servicing is not included in the Note rate.

Servicing Fee Set-Aside refers to an amount withheld from the HECM proceeds for the payment of the monthly servicing fee.

(B) Standard

The maximum servicing fee that may be charged on a fixed rate or an annually adjustable rate HECM is $30 per month. The maximum servicing fee that may be charged on a monthly adjustable rate HECM is $35 per month.

If the Mortgagee chooses to assess a servicing fee, they must establish a Servicing Fee Set-Aside based on payment of the monthly servicing fee calculated for the life expectancy of the youngest Borrower or Eligible NBS, if applicable.

Formula for Servicing Fee

$S_k = FEE \times [(1+i)^{(m+1)} – (1+i)] / [i \times (1+i)^m]$

S_k is the Servicing Fee Set-Aside required in the kth month of the HECM, where k at time of loan origination is equal to 1, for future payment of flat monthly loan servicing fees from the Borrower’s account, and this amount is constant for the entire month.

i is the monthly compounding rate calculated as one-twelfth of the sum of the mortgage interest rate (Note rate) and the annual MIP rate.

m is the number of remaining months that the servicing fee could be collected, i.e., the remaining term on a tenure mortgage in the kth month of the HECM:

$$m = 12 \times (100 – \text{Borrower's Age}) – k + 1$$

Borrower’s Age is the Borrower’s age used to calculate the Principal Limit, and FEE is the monthly loan servicing fee charged to the Borrower’s account.

Where loan servicing charges are included in the mortgage interest rate (Note rate) and are paid as a percentage of the outstanding loan balance, then FEE is zero, and the calculation of S_k results in a zero Set-Aside amount for all months.

For all other cases, the Servicing Fee Set-Aside, S_k, will decrease as k increases, reaching zero for:

$$k = 12 \times (100 - \text{Borrower's Age})$$

xi. Borrower Approval or Denial

(A) Re-processing

The Mortgagee must re-evaluate a HECM when any data element of the HECM changes and/or new Borrower information becomes available. This includes information that may impact the:

- credit history review;
- property charge payment history review;
- monthly expense analysis;
- Effective Income analysis; and
- Residual Income analysis.

(B) Documentation of Final HECM Decision

The underwriter must complete the following documents to evidence their final HECM decision. The Mortgagee is responsible for providing well-documented reasons for approving the HECM when the Borrower does not meet the standards for Residual Income, Satisfactory Credit History, and Satisfactory Property Charge Payment History, and all other financial assessment policies. The Mortgagee must complete the following documentation requirements.

(1) Financial Assessment Worksheet

The underwriter must record the following items on the HECM Financial Assessment Worksheet:

- their decision;
- any Extenuating Circumstances and Compensating Factors;
- any approval; and
- their Direct Endorsement Identification Number and signature.

(2) Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*

The underwriter must confirm that form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, is completed as directed in the form instructions.

(3) Form HUD-92051, *Compliance Inspection Report*, or Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*

The underwriter must confirm that form HUD-92051, *Compliance Inspection Report*, or Part B of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*, is completed when required repairs must be completed before closing.

(4) Form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*

The underwriter must complete form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*, as directed in the form instructions.

An authorized officer of the Mortgagee, Borrower, Eligible NBS, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

(C) Test Case Phase

For cases involving Mortgagees that receive a Direct Endorsement Program Test Case Phase approval letter from FHA, the Mortgagee must complete and submit the processed HECM application and Documentation of Final HECM Decision post-closing to FHA for review and issuance of a *Firm Commitment* or Rejection Notice. See Test Case Phase.

(D) Conditional Approval

The underwriter must condition the approval of the Borrower on the completion of the final *RLARM* and form HUD 92900-A at or before closing if the underwriter relied on an initial *RLARM* and form HUD-92900-A in processing the HECM.

(E) Notification of Borrower of Approval and Term of the Approval

The Mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the *Firm Commitment* is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment Direct Endorsement Statement of Appraised Value issued by HUD; or
- underwriter's approval date of the Property, indicated as the Action Date on form HUD-92800.5B.

(F) Borrower and Seller Inspection of the HUD-1 Settlement Statement

The Mortgagee must prepare the HUD-1 Settlement Statement (HUD-1) at least one business day before closing. The Mortgagee must provide a copy of the HUD-1 to the Borrower and seller at least one business day prior to closing.

Mortgagees are responsible for the accuracy of the HUD-1. Errors reported by the seller or Borrower must be resolved prior to the date of closing.

(G) Responsibilities upon Denial

When a HECM is denied, the Mortgagee must comply with all requirements of the FCRA, and the Equal Credit Opportunity Act (ECOA), as implemented by Regulation B (12 CFR Part 1002).

6. Closing

a. Mortgagee Closing Requirements (04/10/2025)

The case binder must contain the required documents identified on the HECM Required Documents for Endorsement stacking order and include all documentation that has been relied upon in support of the Mortgagee's decision to approve the HECM.

i. Title

The Mortgagee must ensure that all objections to title have been cleared and any discrepancies have been resolved to ensure that the HECM liens are the first and second (if applicable) lien(s) of record.

(A) Good and Marketable Title

(1) Standard

The Mortgagee must determine if there are any exceptions to good and marketable title not covered by the General Waiver. See General HECM Insurance Eligibility and 24 CFR § 203.389.

The Mortgagee must review any exceptions discovered during the title search and decide whether such title exceptions affect the Property's value and/or marketability.

If the Mortgagee determines that any exception affects the Property's value and/or marketability, the Mortgagee must request a waiver.

(2) Required Documentation

The Mortgagee must obtain Title Evidence demonstrating good and marketable title.

(B) Requests for Title Exceptions Not Covered by the General Waiver

The Mortgagee must submit a request for a waiver when the Title Exception is not covered by the General Waiver to the FHA Resource Center at answers@hud.gov prior to endorsement. The request must include the case number, the specific

guideline, and the reason the Mortgagee is asking for the waiver. If the waiver is granted, FHA will notify the Mortgagee in writing. The Mortgagee must place the notice of approval in the mortgage file.

If the waiver request is denied and good and marketable title is not obtained, the HECM is not eligible for FHA insurance.

(C) Evidence of Hazard Insurance Policy

Mortgagees must verify evidence of a Hazard Insurance policy that is at least equal to the value of insurable property improvements.

For condominiums, see the Condominiums – Insurance section.

(D) Evidence of Title Insurance Policy or Commitment

The Mortgagee must verify evidence of a title insurance policy at least equal to the MCA. The title insurance policy must show that:

1. the Borrower owns or, for purchase transactions, will own the Property:
   - in Fee Simple; or
   - on a Leasehold that is under a lease with a duration lasting until the later of:
     - a renewable lease for not less than 99 years; or
     - a lease with the actuarial life expectancy of the Mortgagor; and
2. the Mortgage will be a first lien of record when recorded.

(E) Manufactured Housing

Good and marketable title showing the Manufactured Home and land are classified as real estate at the time of closing is required.

If there were two existing titles at the time the housing unit was purchased, the Mortgagee must ensure that all state or local requirements for proper purging of the title (chattel or equivalent debt instrument) have been met, and the subject Property is classified as real estate prior to endorsement. The Manufactured Home need not be taxed as Real Property.

ii. Legal Restrictions on Conveyance (Free Assumability)

The Mortgagee must determine that there are no legal restrictions on conveyance in accordance with 24 CFR § 206.45(e).

iii. Closing in Compliance with Mortgage Approval

The Mortgagee must instruct the settlement agent to close the HECM in the same manner in which it was approved.

The Mortgagee must ensure that the conditions listed on form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*, and/or form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, are satisfied.

iv. Principal Limit Calculation at Closing

(A) Definition

Float Down Option refers to the calculation of the Principal Limit at closing when the Expected Rate in effect on the date of closing is lower than the Expected Rate used when the lock-in agreement was signed by the Borrower.

(B) Standard

The Mortgagee must calculate the Principal Limit at closing if there is no lock-in agreement. In accordance with the lock-in agreement terms and conditions, if the lock-in agreement includes a float down option, the Mortgagee may recalculate the Principal Limit if the Expected Rate in effect on the date of closing has declined and is now lower than the Expected Rate used for the lock-in agreement.

The Mortgagee is not permitted to charge a fee for recalculating the Principal Limit.

The Mortgagee must verify the Principal Limit Factor is based on the age of the youngest Borrower or Eligible NBS, rounded up to the nearest whole year if the next birthday is less than 183 Days after closing.

v. Establishing the Note Rate

The Mortgagee must use indices in effect on the date of closing to calculate the first year accrual rate. For adjustable interest rate HECMs, the Mortgagee must use the same mortgagee's margin that was used to calculate the Principal Limit amount for the initial Note rate and the periodic adjustments to the Note rate.

For all interest rate options, the index value used to determine the initial Note rate and periodic adjustments must not be below zero.

In the event the current index for an adjustable interest rate HECM falls below zero, the current index will be deemed to be zero for purposes of calculating the Borrower's Note rate.

(A) Constant Maturity Treasury Index

The weekly averages of the one-month, one-year, and Constant Maturity Treasury (CMT) indices are published in the Federal Reserve Board Statistical Release H.15. The weekly averages of the 1-month and 1-year CMT are available in the "Treasury constant maturities" section of the H.15.

Mortgagees closing a HECM on Monday must use the index from the Statistical Release issued the previous Monday (one week earlier).

(B) Secured Overnight Financing Rate (SOFR) Index

The Federal Reserve Bank of New York publishes the 30-day average SOFR index each business day on their website. The Mortgagee must use the rate published on the first business day of each week and which is in effect the next day after the index is published. The rate remains in effect until the subsequent index rate becomes effective the following week. The published 30-Day Average SOFR index figure shall be rounded to three digits to the right of the decimal point.

Mortgagees closing a HECM on Monday must use the index issued the previous Monday (one week earlier).

vi. Assignment Insurance Option

(A) Definition

Assignment Insurance Option refers to a Mortgagee's right to assign the HECM to HUD when the outstanding balance is equal to or greater than 98 percent of the MCA, or when a request for a line of credit draw will cause the outstanding balance to equal or exceed 98 percent of the MCA.

(B) Standard

The Mortgagee must designate the assignment insurance option.

vii. Closing in the Mortgagee's Name

A HECM may close in the name of the Mortgagee or the sponsoring Mortgagee, the principal, or the authorized agent. TPOs that are not FHA-approved Mortgagees may not close in their own names or perform any functions in FHAC.

viii. Required Forms

The Mortgagee must use the forms and/or language prescribed by FHA in the legal documents used for closing the HECM.

(A) Mortgage and Note

The Mortgagee must complete a first Mortgage and first Note (fixed or adjustable rate) to secure any payments made by the Mortgagee to the Borrower.

(B) Second Mortgage and Note

For adjustable rate HECMs, the Mortgagee must complete a second Mortgage and second Note to secure any payments that may be made by HUD to the Borrower.

For fixed rate HECMs, a second Mortgage and Note are optional.

(C) Condominium

If the HECM to be insured is secured by a Condominium Unit, the appropriate mortgage rider must be used. The Mortgagee must obtain the certificate of insurance or complete copy of the insurance policy.

(D) HECM Repair Rider

The Mortgagee must verify the amount of the Repair Set-Aside is equal to 150 percent of the cost of the required repairs, plus the repair administration fee.

The Mortgagee must obtain a Repair Rider, signed and dated by the Borrower, when the required repairs will be completed after closing.

(E) Payment of Property Charges

The Mortgagee must verify the loan agreement includes the Borrower's designation for payment of Property Charges.

ix. HECM Borrower, Non-Borrowing Spouse, and Non-Borrowing Owner Certifications

(A) Standard

The Mortgagee must obtain the Borrower's and NBS's signatures on form HUD-92900-A.

The Mortgagee must confirm whether all Borrowers are legally married and obtain the appropriate certification from each Borrower and any NBS. The required certifications, if applicable, are:

- unmarried Borrower;
- married Borrower with Eligible NBS;
- married Borrower with Ineligible NBS;
- Eligible NBS; or
- Ineligible NBS.

The Mortgagee must obtain certifications from the NBS and any Non-Borrowing Owner that show:

- consent to the Borrower to obtain HECM financing;
- acknowledgement of the terms and conditions of the Mortgage; and
- acknowledgement that the Property will serve as collateral for the HECM as evidenced by the first and second HECM liens.

(B) Required Documentation

At closing, Mortgagees must obtain all required certifications from each Borrower, NBS, and Non-Borrowing Owner.

x. Designation of Alternate Individual

(A) Definition

The Home Equity Reverse Mortgage Information Technology (HERMIT) System refers to HUD's HECM Servicing platform for collecting MIP, managing all servicing activities and paying insurance claims. See the *HERMIT User Guide* for detailed information regarding using the platform.

(B) Standard

Prior to or at closing, the Mortgagee must request that the Borrower designate an alternate individual for the purpose of communicating with the Mortgagee if the Mortgagee is unable to reach the Borrower for any reason, including death or incapacitation. The designation of the alternate individual is at the discretion of the Borrower.

The Mortgagee must use the HERMIT System to enter contact information for the alternate individual, if provided.

If the Mortgagee is unable to make contact or communicate with the Borrower for any reason, including death or incapacitation, the Mortgagee must communicate with the alternate individual, if one has been designated by the Borrower.

xi. Principal Residence Verification

The Mortgagee must ensure the Property is the Principal Residence of each Borrower and Eligible NBS.

xii. Required Closing Certifications

(A) Borrower Certification

The Borrower must sign the certification to the Addendum to HUD-1.

(B) Settlement Agent Certification

The settlement agent must sign the certification to the Addendum to HUD-1.

(C) Lender Certification

The Mortgagee must sign the certifications on form HUD-92900-A in accordance with the instructions provided on the form.

xiii. Inspection and Repair Requirements for HECMs Pending Closing in Presidentially-Declared Major Disaster Areas

(A) Standard

All Properties with HECMs pending closing in areas under a Presidentially-Declared Major Disaster Area (PDMDA) designated for individual assistance must have an onsite damage inspection report that identifies and quantifies any dwelling damage, which includes interior and exterior photographs. The damage inspection report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the Property, and the report must be dated after the Incident Period (as defined by FEMA) or 14 Days from the Incident Period start date, whichever is earlier. The Appraiser may, at their discretion, perform a Remote Observation of the Property. If the effective date of the appraisal is on or after the date required above for an inspection, a separate damage inspection report is not necessary.

FHA does not require the Appraiser to ensure utilities are on at the time of this inspection if they have not yet been restored for the area.

Damage inspections may be completed by any FHA Roster Appraiser in good standing with geographic competence in the affected market. If the Mortgagee uses a different Appraiser than the Appraiser that did the original inspection of the Property, the Appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.

All damages must be repaired by licensed contractors or according to local jurisdictional requirements. All damages, regardless of amount, must be repaired and the Property restored to pre-loss condition with appropriate and applicable documentation.

Based on the damage amount, repairs may be:

- completed prior to closing; or
- completed after closing provided that required repairs are included in a Repair Rider, if sufficient funds are available for a Repair Set-Aside, and repair costs do not exceed permissible thresholds. See Pending HECM Closing table.

For HECM for Purchase transactions, see the Inspection and Repair Requirements for HECMs Pending Closing in Presidentially-Declared Major Disaster Areas section in the HECM for Purchase product sheet.

(B) Required Documentation

Mortgagees must include the damage inspection report in the case binder for all Properties. The following table shows additional required documentation based on the extent of damages.

Pending HECM Closing	
If...	**Then...**
No damage exists,	Close HECM and provide initial damage inspection report.
Damages are below $5,000 and Property is habitable,	Complete repairs prior to closing and provide initial damage inspection report; or Establish Repair Set-Aside prior to closing and provide initial damage inspection report and Repair Rider. See Required Repairs in the HECM for Purchase product sheet.
Damages are $5,000 or above and the Property is habitable,	Do not close the HECM. Repairs must be completed prior to closing. Provide initial and final damage inspection report.
The Property is not habitable,	Do not close the HECM. Repairs must be completed prior to closing. Provide initial and final damage inspection report.

(C) Pre-closing Appraisal Validity in Disaster Areas

For HECMs that are not closed prior to the Incident Period, as defined by FEMA, in PDMDAs where a damage inspection report reveals property damage, the appraisal validity period is extended from 180 Days to a maximum of one year from the effective date of the original appraisal.

In no instance will an appraisal be acceptable for a mortgage closing that has an effective date beyond one year. HECMs with appraisals having effective dates in excess of one year require a new appraisal.

xiv. Closing Costs and Fees

(A) Standard

The Mortgagee must ensure that all fees charged to the Borrower comply with all applicable federal, state, and local laws and disclosure requirements.

The Mortgagee must ensure, after the initial payment of HECM proceeds, that there will be no outstanding or unpaid obligations incurred by the Borrower in connection with the HECM transaction, except in cases involving loan servicing charges and any Repair Set-Aside.

(1) Mandatory Obligations

(a) Definition

Mandatory Obligations refer to fees and/or charges incurred in connection with the origination of the HECM that are requirements for loan approval and

which will be paid at closing or during the First 12-Month Disbursement Period.

(b) Standard

The Mortgagee must ensure the Borrower's Mandatory Obligations are paid off.

Mandatory Obligations are limited to:

- IMIP;
- loan origination fee;
- HECM counseling fee;
- reasonable and customary amounts, but not more than the amount actually paid by the Mortgagee for any of the following items:
  - recording fees and recording taxes or other charges incident to the recordation of the HECM;
  - credit report;
  - survey, if required by the Mortgagee or the Borrower;
  - title examination;
  - Mortgagee's title insurance;
  - fees paid to an Appraiser for the appraisal of the Property; and
  - flood certification;
- repair administration fee;
- Repair Set-Asides;
- delinquent Federal Debt;
- amounts required to discharge any existing liens on the Property:
  - judgment liens recorded against the Property secured by the HECM;
- customary fees and charges for warranties, inspections, surveys, and engineer certifications;
- funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by the Appraiser;
- property tax, Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing;
- for fixed rate HECMs: the total amount of Property Charges scheduled for payment during the First 12-Month Disbursement Period from a Fully Funded LESA. Mortgagees must use the actual insurance premium and actual tax amount; and
- for adjustable rate HECMs:
  - the total amount of property charge payments scheduled for payment from the Borrower-authorized option as set forth in 24 CFR § 206.205 during the First 12-Month Disbursement Period;

- the total amount of semiannual Disbursements scheduled to be made during the First 12-Month Disbursement Period to the Borrower from a Partially Funded LESA; and
- the total amount of Property Charges scheduled for payment during the First 12-Month Disbursement Period from a Fully Funded LESA. Mortgagees must use the actual insurance premium and actual tax amount.

(2) Seasoning Requirements for Existing Non-HECM Liens

(a) Standard

The Mortgagee must determine the age of the lien and, if necessary, the amount of funds provided to the Borrower. The Mortgagee may use HECM proceeds to pay off existing non-HECM liens if:

- the liens have been in place for longer than 12 months prior to the date of the HECM closing;
- the lien resulted in the Borrower receiving $500 or less in cash, whether at closing or through cumulative draws prior to the date of the HECM closing; or
- the lien has been in place for 12 months or less prior to the date of the HECM closing, but funds were used exclusively for the purpose of making required repairs needed to satisfy MPR or MPS.

For a Home Equity Line of Credit (HELOC) that does not meet the seasoning requirements above, the Mortgagee may pay off the Borrower's HELOC using Borrower funds, the HECM proceeds, or a combination of HECM proceeds and Borrower funds, as long as the Initial Disbursement Limit or Borrower's Advance remains at or under 60 percent of the Principal Limit.

(b) Required Documentation

To document the age of the lien, the Mortgagee must use the HUD-1, Closing Disclosure, or other documents, such as a title report, credit reports, or documents related to the transaction that contain the required information.

To document the Borrower received $500 or less in cash, the Mortgagee must review the HUD-1 or equivalent document from the transaction that resulted in a lien that is to be paid off using HECM proceeds, the payoff statement, or documents related to the transaction.

To document the use of funds from a lien in place for 12 months or less, where more than $500 was received by and/or disbursed to the Borrower, and such funds were utilized for home improvements, the Mortgagee must collect documentation, such as canceled checks, paid contractor invoices, or other documents evidencing actual use of loan funds.

For HELOCs, the Mortgagee must obtain the most recent HELOC statement or its equivalent.

(3) Third-Party Fees

The Mortgagee may charge the Borrower third-party fees incurred to originate the HECM. FHA may authorize or reject any other charge, or the amount of any charge, based on what is reasonable and customary in the area.

(a) Appraisal Fee and Inspection Fee

The Mortgagee may charge reasonable and customary amounts, but not more than the amount actually paid by the Mortgagee. The Borrower may finance the cost of a second appraisal required by the collateral risk assessment.

(b) Credit Report

The Mortgagee may charge the actual cost for a merged-in file report, which contains the information currently available from three consumer credit information repositories.

(c) Deposit Verification Charge

The Mortgagee may charge the actual charge imposed by the depository institution or TPV.

(d) Document Preparation Fee

The Mortgagee may charge a document preparation fee if this service is performed by a third party who is not controlled by the Mortgagee. The Mortgagee may not charge a fee if it performs this service itself.

(e) Property Survey

The Mortgagee may charge a property survey fee if a survey is required by the Mortgagee. A survey is not required by FHA.

(f) Title Examination and Title Insurance Policy

A title insurance policy at least equal to the MCA must be submitted in the closing package, and the Borrower may pay for these items.

(g) Attorney's Fees

The Mortgagee may charge Attorney's Fees only if the attorney is not an employee of the Mortgagee or is not an attorney who routinely receives referrals from a particular Mortgagee and issues the title insurance. If an attorney who is not an employee of the Mortgagee is routinely used on referral

from the Mortgagee to close loans and issue title insurance, the Borrower may only be charged a notary fee.

(h) Settlement Fees

The Mortgagee may charge settlement fees only if the closing agent is not an employee of the Mortgagee. A fee may be charged if the settlement agent is an independent company or a subsidiary of the Mortgagee that regularly closes loans for several different Mortgagees.

(i) Sponsored Third-Party Originator

The Mortgagee may pay fees for services performed by a sponsored TPO from the loan origination fee.

(j) Tax Service Fee

The Mortgagee may charge the Borrower a tax service fee to verify the Borrower's property tax payment history from all taxing authorities and the annual amount of property taxes due. The maximum fee must be a reasonable and customary amount and may not exceed the actual amount paid by the Mortgagee.

(k) Recording Fees and Taxes

The Mortgagee may charge recording fees on the first and second Mortgages that are customary or required in the area, and recording taxes on the first Mortgage that are required. The second Mortgage is not subject to any state or local recording taxes, or stamp taxes, because the second Mortgage is a Mortgage to the federal government.

(l) Tests or Treatments

The Mortgagee may charge for tests or treatments required by FHA such as tests of water supplies, soil percolation tests for individual septic systems, or testing for or treating insect infestation.

(m)Courier Fees

Upon Borrower request, the Mortgagee may charge a courier fee for delivery of a mortgage Payoff to a lien holder and for closing documents to and from the settlement agent. If this arrangement will take place, a written agreement between the Borrower and the Mortgagee must be executed before closing.

Online processing and delivery of a mortgage Payoff to a lien holder and for closing documents to and from the settlement agent are the sole responsibility of the Mortgagee and must be paid from the loan origination fee.

(4) Property Assessed Clean Energy

The PACE obligation must be paid off in full at closing. The Borrower may use HECM proceeds to satisfy the PACE obligation. For HECM for Purchase transactions, see the Property Assessed Clean Energy section of the product sheet.

(5) Prohibition on Non-Mandatory Obligations

Judgments that appear on the credit report or on public records that are not liens against the Property secured by the HECM are not Mandatory Obligations and may not be paid off at closing using HECM proceeds.

Uniform Commercial Code liens placed against leased equipment or a leased energy system is not a Mandatory Obligation and may not be paid off at closing using HECM proceeds.

(6) Collecting Customary and Reasonable Fees

The Mortgagee may collect customary and reasonable amounts, but not more than the amount actually paid by the Mortgagee, for any of the following items:

- recording fees and recording taxes, or other charges incident to the recordation of the insured Mortgage;
- credit report;
- survey, if required by the Mortgagee or the Borrower;
- title examination;
- Mortgagee's title insurance;
- fees paid to an Appraiser for the initial appraisal of the Property;
- flood certifications;
- third-party property tax verification fee; and
- repair administration fee.

If the Property requires repairs after closing in order to meet FHA requirements, the Mortgagee must collect the repair administration fee by adding it to the mortgage balance.

(7) Loan Origination Fees

(a) Definition

Loan Origination Fee refers to charges and fees incurred in connection with the origination, processing, and closing of the HECM.

(b) Loan Origination Fee Calculation

The Mortgagee may charge an origination fee which is the greater of:

- $2,500; or

- 2 percent of the MCA of $200,000, plus 1 percent of any portion of the MCA that is greater than $200,000.

The total amount of the loan origination fee may not exceed $6,000. Mortgagees may accept a lower origination fee.

Mortgagees may pay fees for services performed by a sponsored TPO and these fees may be included as part of the loan origination fee. The loan origination fee may be fully financed with the Mortgage.

(B) Required Documentation

The Mortgagee must obtain the final HUD-1 Settlement Statement or similar legal document from the settlement agent.

xv. Payment of Initial Mortgage Insurance Premium

Payment of IMIP is processed automatically once the originating Mortgagee or servicing Mortgagee completes loan setup in HERMIT. Mortgagees may pay a portion or full amount of IMIP. For HECM for Purchase transactions, see the Initial Mortgage Insurance Premium Amount section of the product sheet.

xvi. Annual Mortgage Insurance Premium

The Mortgagee must remit the monthly MIP on the outstanding balance from the latter of the date of closing or the day after the expiration of the rescission period.

xvii. Closing Date

The Mortgagee must enter the Closing Date in block I on page 1 of the HUD-1.

xviii. Disbursement Date

(A) Definition

The Disbursement Date refers to the date the proceeds of the HECM are made available to the Borrower.

(B) Standard

The Disbursement Date must occur before the expiration of the FHA-issued *Firm Commitment* or Direct Endorsement approval and credit documents. The Mortgagee must enter the Disbursement Date in block I on page 1 of the HUD-1.

xix. Upload of Marriage Documentation in HERMIT for Eligible Non-Borrowing Spouse

Once the originating Mortgagee or servicing Mortgagee completes loan setup in HERMIT, the Mortgagee must upload a copy of the Borrower and Eligible NBS's marriage certificate, legal opinion certifying the validity of the marriage, or other evidence sufficient to establish the legal validity of the marriage in HERMIT.

xx. Right of Rescission and Interest Accruals

HECM proceeds may not be disbursed until after the expiration of the three-day rescission period under 12 CFR Part 1026, if applicable.

The interest charged on the outstanding loan balance must begin to accrue from the Disbursement Date and must be added to the outstanding loan balance monthly. Mortgagees are prohibited from charging interest on funds held available for the Borrower during the three-day rescission period.

xxi. Signatures

The Mortgagee must ensure that the Mortgage, Note, and all closing documents are signed by all required parties in accordance with Borrower Eligibility.

The Mortgagee must ensure that the signatures block on the Mortgage follows the Fannie Mae/Freddie Mac format, with the following exceptions: witness signatures are only required if witnesses are required by state law; and the Borrower's SSN may be omitted.

xxii. Use of Power of Attorney at Closing

(A) Standard

A Borrower, NBS, or Non-Borrowing Owner may designate an attorney-in-fact to use a POA (durable or otherwise) to sign documents on their behalf at closing.

Unless required by applicable state law, or as stated in the Exception below, or they are a Family Member of the Borrower, NBS, or Non-Borrowing Owner, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- Mortgagee or any employee or Affiliate;
- HECM originator or employer or employee;
- title insurance company providing the title insurance policy, the title agent closing the HECM, or any of their Affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

(B) Exception

Closing documents may be signed by an individual who is connected to the transaction provided they are listed as an attorney-in-fact in a POA expressly authorizing them to execute the required documents on behalf of a Borrower, NBS, or Non-Borrowing Owner. Acceptance of such an attorney-in-fact's signature is further conditioned upon the attorney-in-fact obtaining, in a recorded interactive session conducted via the internet, a statement that the Borrower, NBS, or Non-Borrowing Owner has:

- confirmed their identity; and
- reaffirmed, after an opportunity to review the required mortgage documents, their agreement to the terms and conditions of the required mortgage documents evidencing such transaction and to the execution of such required Mortgage by such attorney-in-fact.

(C) Required Documentation

The Mortgagee must obtain copies of the signed initial and final *RLARM*, loan agreement, *Certificate of HECM Counseling*, and Part IV of the initial form HUD-92900-A signed by the Borrower or attorney-in-fact in accordance with Signature Requirements for All Application Forms.

xxiii. Use of Court-Appointed Conservator or Guardian

(A) Standard

A court-appointed conservator or guardian may execute any necessary documents of any Borrower, NBS, or Non-Borrowing Owner lacking legal competency.

(B) Required Documentation

The Mortgagee must obtain a copy of the court order granting the conservator or guardian the authority to act for and/or obligate the Borrower, NBS, or Non-Borrowing Owner.

b. Mortgage and Note (04/29/2024)

i. Definitions

Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential Property and the land on which it is situated, such as a deed of trust or security deed or land contract.

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Mortgage.

ii. Standard

The Mortgagee must develop or obtain a separate Mortgage and Note that conforms generally to the Freddie Mac and Fannie Mae forms in both form and content, but that includes the specific modification required by FHA set forth in the applicable Model Note and Mortgage. The Mortgagee must ensure that the Mortgage and Note comply with all applicable federal, state, and local requirements for creating a recordable and enforceable Mortgage, and an enforceable Note.

All Borrowers obligated on the Note must be on the title to the Property. The HECM must be executed by all parties necessary to make the lien valid and enforceable under state law.

Mortgagees originating a HECM in escrow closing states must arrange to have the Borrower sign the Note while the same interest rates are in effect as when the mortgage documents are drawn.

(A) Maximum Mortgage Amount

FHA policy does not require a maximum mortgage amount to be stated in the Mortgage. Where state law requires the Mortgage to reflect a maximum mortgage amount, the Mortgagee must use an amount that is at least equal to 150 percent of the MCA. When a maximum mortgage amount is stated in the Mortgage, the Mortgagee is not secured for payments to the Borrower beyond the stated amount. Where state law does not require the Mortgage to reflect a maximum mortgage amount, the Mortgagee may use an amount that is at least equal to 150 percent of the MCA.

(B) Rounding Interest Rates

The Mortgagee may round the Expected Rate or the initial Adjustable Rate Mortgage (ARM) Note rate to the nearest one-eighth of one percentage point. The Mortgagee may round both rates, only one rate, or none of the rates.

The Mortgagee must maintain the same rounding throughout the life of the HECM.

(C) Commingling of Index Types

Commingling of index types between the Expected Rate and Note rate is only allowed for annual adjustable rate HECMs.

c. Adaptation of Loan Documents (04/29/2024)

Mortgagees must make the necessary and appropriate modifications to the Mortgage, Note, and the loan agreement to ensure compliance with FHA requirements as well as other federal, state, and local laws. Mortgagees may make adaptations without HUD approval.

d. Disbursement of HECM Proceeds (04/29/2024)

The Mortgagee must verify that HECM proceeds are disbursed in the proper amount to the Borrower or to the debt holder. At closing, the HECM proceeds disbursed by the Mortgagee and any funds received from, or on behalf of, the Borrower must equal the total required for closing.

The sum of all advances permitted under the HECM must not exceed the Principal Limit. The Borrower may bring available funds to closing to bring the sum of all anticipated advances within the Principal Limit. See Insufficient HECM Proceeds.

i. Insufficient HECM Proceeds

If there are insufficient funds for Disbursement, the Mortgagee must ensure the Borrower brings funds to closing to satisfy all obligations in excess of the Initial Disbursement Limit or Borrower's Advance, which cannot exceed the Principal Limit.

ii. Required Documentation

The Mortgagee must obtain a signed and dated Payment Plan Exhibit from the Borrower.

7. Post-closing and Endorsement

a. Pre-endorsement Review (04/29/2024)

The Mortgagee must complete a pre-endorsement review of the mortgage file to ensure all applicable documents as described in the Assembly of Case Binder for Electronic Submission are included in the endorsement submission. The Mortgagee must exercise due diligence in performing its pre-endorsement responsibilities. This review must be conducted by staff not involved in the originating, processing, or financial assessment of the HECM. The case binder must contain all documentation relied upon by the Mortgagee to justify its decision to approve the HECM.

b. Mortgagee Pre-endorsement Review Requirements (08/19/2024)

When conducting the pre-endorsement review, the Mortgagee must review and verify data entered in FHA Connection is accurate and correct based on documentation contained in the case binder. The Mortgagee must also review and verify the following items, as applicable. All documents must be legible.

i. HECM Late Submission Letter

The Mortgagee must confirm that the Late Submission Letter is completed, if necessary.

ii. Financial Assessment Worksheet or Equivalent

The Mortgagee must confirm that the form is completed, containing all information for HECM approval and LESA requirements. The form must be signed and dated by the underwriter.

iii. Borrower and Non-Borrowing Spouse Certifications

The Mortgagee must confirm any required certification is completed in accordance with FHA requirements.

iv. Evidence of Age

The Mortgagee must confirm evidence of the Borrower's age and the NBS's age, if applicable, is included.

v. Evidence of the Social Security Number

The Mortgagee must confirm that the HECM file contains evidence of the Borrower's and any Eligible NBS's SSN.

vi. HECM Counseling Certificate

The Mortgagee must confirm that the HECM file contains the *Certificate of HECM Counseling*, received from a Participating Agency and signed by the HECM counselor and all individuals required to complete HECM counseling.

The Mortgagee must confirm that the HECM file contains evidence of lack of Borrower, NBS, and Non-Borrowing Owner competency if HECM counseling is not provided directly to any HECM Borrower, NBS, or Non-Borrowing Owner.

vii. Note (Including HECM Second Note, if Applicable)

The Mortgagee must confirm that the Note is the Authoritative Copy, the Borrower name on the Note matches that on the *RLARM*, and the required language from the Model Note is present. The Mortgagee must also confirm that:

- the Note has been executed;
- the maximum principal amount, if required by state law, is not higher than the amount referenced on the security instrument; and
- all applicable allonges, agreements, and riders are properly executed.

The Mortgagee must confirm that the HECM file contains a copy of the HECM First Note and HECM Second Note, if applicable.

The Mortgagee must ensure that the HECM Second Note, if applicable, is mailed directly to HUD's HECM servicing contractor.

viii. HECM Security Instrument

The Mortgagee must confirm that the security instrument:

- is the Authoritative Copy;
- has been executed (along with all riders indicated on the last page of the security instrument);
- includes, as applicable, a mortgage amount that is at least equal to 150 percent of the MCA;
- lists the same property address as the *RLARM* (Fannie Mae Form 1009); and
- lists the FHA case number.

After closing, the Mortgagee must record the first Mortgage.

ix. HECM Second Security Instrument, if Applicable

After closing, the Mortgagee must record the second Mortgage. The second Mortgage is not subject to any state or local recording taxes or stamp taxes because the second Mortgage is a Mortgage to the federal government. Recording fees, which are a charge for a service, may be imposed by the local recording office.

The Mortgagee must confirm that the HECM file contains a copy of the second security instrument, if applicable.

The Mortgagee must ensure that the recorded HECM second security instrument is mailed directly to HUD's HECM servicing contractor.

x. Settlement Statement and Settlement Certification

Mortgagees are responsible for the accuracy of the Settlement Statement or similar legal document.

The Mortgagee must confirm that the Settlement Statement or similar legal document and the Settlement Certification, if applicable, are complete and signed by the Borrower, seller, as applicable, and settlement agent. If the HUD-1 Settlement Statement or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final statement provided to the seller to keep in the case binder.

The Settlement Statement or similar legal document must indicate that all existing mortgage liens have been fully satisfied or are subordinate to the first and second HECM liens.

The Settlement Certification must contain certification language.

Mortgagees may not change or alter the certification language; exact wording must be used. A Notice of Rejection will be issued when the certification is missing from the FHA case binder.

xi. Payoff Demands

The Mortgagee must confirm the most recent payoff demand for any mortgage debt paid off using HECM proceeds is included.

xii. Notice to Borrower

The Mortgagee must confirm the notice is included.

xiii. Loan Agreement and Related Exhibits

The Mortgagee must confirm the original loan agreement and the following related exhibits are accurate:

- schedule of closing costs and liens;
- payment plan; and
- Repair Rider, if applicable.

The Mortgagee must confirm that the HECM file contains a copy of the loan agreement and related exhibits.

The Mortgagee must ensure the original HECM loan agreement and exhibits are mailed directly to HUD's HECM servicing contractor.

xiv. Final Residential Loan Application for Reverse Mortgages

The Mortgagee must confirm the *RLARM* is signed and dated by the Mortgagee and all Borrowers and/or, if applicable, attorney-in-fact. If the final *RLARM* is not signed by the Mortgagee, the initial application signed by the Mortgagee is acceptable.

xv. Form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*

The Mortgagee must confirm that form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application,* is completed as instructed by FHA and *RLARM*.

xvi. Seasoning Documentation

The Mortgagee must confirm documentation supporting compliance with seasoning requirements for existing non-HECM liens is included, if applicable.

xvii. Financial Assessment Documentation

The Mortgagee must confirm that documentation verifying and supporting the following is included:

- credit history, including a credit report;
- evidence of CAIVRS authorization code;
- evidence that the SAM Excluded Parties List and HUD's Limited Denial of Participation List was checked;

- income verification;
- asset verification;
- property charge verification;
- Residual Income analysis worksheet;
- tax deferral waiver or exemption;
- HECM for Purchase transactions must include documentation to indicate the Borrower's recent debts were not borrowed to meet the monetary investment requirement;
- cited Extenuating Circumstances and/or Compensating Factors;
- Mortgagee's decision to require a Fully Funded or Partially Funded LESA; and
- calculation of the amount of any LESA.

Mortgagees must ensure that the Borrower certifies the accuracy and completeness of the financial information.

xviii. Good Faith Estimate

The Mortgagee must confirm the initial and any revised GFEs are included.

xix. Credit Report(s)

The Mortgagee must confirm that the HECM file contains a credit report for each Borrower. If there are multiple credit reports, all credit reports must be submitted in the case binder.

xx. CAIVRS Report

The Mortgagee must confirm that the HECM file contains a clear CAIVRS report or documentation from the creditor agency to support the verification and resolution of the debt.

xxi. Asset Verification

The Mortgagee must confirm that the HECM file contains the VOD and/or bank statements.

xxii. Income Verification

The Mortgagee must confirm that the HECM file contains verification of the Borrower's income.

xxiii. Gift Letter

The Mortgagee must confirm that the HECM file contains a gift letter, if applicable.

xxiv. Total Annual Loan Cost Documentation

The Mortgagee must ensure the TALC documentation is included.

xxv. Evidence of Calculations

The Mortgagee must confirm evidence of calculations is included for:

- Principal Limit;
- monthly payment; and
- line of credit.

A screen print is acceptable.

xxvi. Life Expectancy Set-Aside

The Mortgagee must ensure LESA calculations are included, if applicable.

A screen print is acceptable.

xxvii. Power of Attorney, Conservator or Guardian

The Mortgagee must ensure a durable POA or legal document appointing a conservator or guardian, if applicable, is included.

xxviii. Assignment Insurance Option

The Mortgagee must ensure selection of the assignment insurance option.

xxix. Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*

The Mortgagee must ensure form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, is included.

xxx. Form HUD-92051, *Compliance Inspection Report*, or Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*, if Applicable

(A) Form HUD-92051, *Compliance Inspection Report*

The Mortgagee must confirm that form HUD-92051, *Compliance Inspection Report*, is completed, signed, and dated by an approved inspector. Local government inspection with the underwriter certification may be accepted.

(B) Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*

The Mortgagee must confirm that Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*, Part B, is completed, signed, and dated by an FHA Appraiser in good standing on the FHA Appraiser Roster.

xxxi. Other Property Inspections and Reports, if Applicable

The Mortgagee must ensure the HECM file contains property inspections and reports to address deficiencies noted by the Appraiser or otherwise required by the Mortgagee to meet MPR.

xxxii. Appraisal Report

The Mortgagee must ensure that Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report* (*URAR*), or other appropriate appraisal form, including all attachments and addenda, is complete, and contains the Appraiser's signature and date.

xxxiii. Flood Certification

The Mortgagee must ensure the Life of Loan Flood Certification is included. If applicable, the Mortgagee must also obtain a:

- FEMA LOMA;
- FEMA LOMR; or
- FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152).

xxxiv. Specialized Eligibility Documents

The Mortgagee must ensure that the HECM file contains all required program-specific documents.

xxxv. Existing Properties Exhibits

The Mortgagee must confirm that the documentation requirements found in the Property Acceptability Criteria section are in the mortgage file.

xxxvi. Hazard Insurance

The Mortgagee must ensure the Hazard Insurance policy is equal to the value of the property improvements.

xxxvii. Title Insurance

The Mortgagee must ensure the HECM file contains a Title Insurance Commitment or other acceptable evidence of title insurance, in an amount not less than the MCA. The title insurance policy must show the Borrower owns the Property in Fee Simple or on a

Leasehold that complies with FHA requirements, and that the Mortgage will be a first lien of record when recorded.

c. Inspection and Repair Requirements for HECMs Pending Endorsement in Presidentially-Declared Major Disaster Areas (08/19/2024)

i. Standard

All Properties with HECMs pending endorsement in areas under a PDMDA designated for individual assistance must have an onsite damage inspection report that identifies and quantifies any dwelling damage, which includes interior and exterior photographs. The damage inspection report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the Property, and the report must be dated after the Incident Period (as defined by FEMA) or 14 Days from the Incident Period start date, whichever is earlier. The Appraiser may, at their discretion, perform a Remote Observation of the Property. If the effective date of the appraisal is on or after the date required above for an inspection, a separate damage inspection report is not necessary.

FHA does not require the Appraiser to ensure utilities are on at the time of this inspection if they have not yet been restored for the area.

Damage inspections may be completed by any FHA Roster Appraiser in good standing with geographic competence in the affected market. If the Mortgagee uses a different Appraiser than the Appraiser that did the original inspection of the Property, the Appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.

All damages must be repaired by licensed contractors or according to local jurisdictional requirements. All damages, regardless of amount, must be repaired and the Property restored to pre-loss condition with appropriate and applicable documentation.

Based on the damage amounts shown in the Pending HECM Endorsement table below, repairs may be:

- completed prior to submitting for endorsement; or
- completed after endorsement provided that a repair escrow is established, and repair costs do not exceed permissible thresholds.

The terms and conditions of establishing a repair escrow are not under FHA's purview and must be negotiated between the Borrower and Mortgagee.

ii. Required Documentation

Mortgagees must include the initial damage inspection report in the case binder for all Properties. The following table shows additional required documentation for Properties that have closed but have not been endorsed.

Pending HECM Endorsement	
If…	**Then...**
No damage exists,	Submit the HECM for endorsement and provide the initial damage inspection report.
Damages are below $5,000 and the Property is habitable,	mplete repairs prior to submitting for endorsement and provide the initial damage inspection report; or Establish a repair escrow prior to submitting for endorsement and provide the initial damage inspection report and repair escrow statement.
Damages are $5,000 or above and the Property is habitable,	Do not submit the HECM for endorsement. Repairs must be completed prior to endorsement. Provide the initial and final damage inspection report.
The Property is not habitable,	Do not submit the HECM for endorsement. Repairs must be completed prior to endorsement. Provide the initial and final damage inspection report.

d. Procedures for Endorsement (11/10/2026)

The Mortgagee must remit the IMIP before endorsement of the HECM. To initiate the insurance endorsement process, the originating or servicing Mortgagee must complete loan setup in HERMIT within 15 Days of closing to initiate HUD's collection of IMIP. Mortgagees may access HERMIT for the IMIP that must be remitted. Once IMIP is remitted, the Mortgagee must complete the Insurance Application function in FHAC and compile the uniform case binder with all of the necessary documents.

Instructions for specific requirements for data format and delivery to FHAC are found in the FHA Connection Guide.

Either the sponsoring Mortgagee, principal, or authorized agent must:

- submit evidence of assignment of the case for endorsement in the name of the originating Mortgagee; and
- transfer the case number to another Mortgagee prior to closing, complete the Lender Transfer screen in FHAC, and complete the assignment of the HECM after endorsement to a new holding or servicing Mortgagee via FHAC.

i. Late Initial Mortgage Insurance Premium Payments

(A) IMIP Late Charge and Interest

If the IMIP is paid more than 20 Days after the Closing Date, the Mortgagee will be assessed a one-time Late Charge of 4 percent of the amount owed, plus interest. The interest rate is determined in accordance with the requirements set forth in the U.S. Department of the Treasury's Financial Manual in effect when the initial payment is received. The Mortgagee must pay the IMIP Late Charge and interest before FHA will endorse the HECM for insurance.

The Mortgagee must not add the amount of the Late Charge and interest to the Borrower's outstanding loan balance.

The Mortgagee may submit a request to appeal a paid Late Charge or interest payment. For specific information on how to submit an appeal, see the *HERMIT User Guide*.

(B) Refund and Credit of Initial Mortgage Insurance Premium

The Mortgagee must use HERMIT to submit a request for an IMIP refund, stating the amount of refund requested, the reason for the request, and to whom the refund is to be paid. See the *HERMIT User Guide* for refund instructions.

The IMIP may be refunded only under the following circumstances:

- the Mortgagee remitted too much money;
- the HECM was never endorsed and is not eligible for endorsement;
- an appeal of Late Charges or interest, or both, was approved; or
- an erroneous Closing Date was entered and later corrected.

ii. Assembly of Case Binder for Electronic Submission

The Mortgagee must prepare and submit a uniform case binder through FHA Catalyst: Case Binder Module in accordance with the *FHA Catalyst: Case Binder Module User Guide*.

The Mortgagee must ensure that all case binders are complete, meet FHA specifications, contain all required documents, and are submitted electronically according to the document order designated below. All documents that are submitted electronically to FHA are considered complete and accurate copies of the original documents.

All appraisals must be submitted through FHA's legacy EAD portal or FHA Catalyst: EAD Module prior to endorsement. Complete instructions and data delivery format requirements for each appraisal form are found in the Appraisal Report and Data Delivery Guide.

HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Appraisal and Property Related Documents	
Designation of Assignment Insurance Option	
Conditional Commitment Direct Endorsement Statement of Appraised Value	HUD-92800.5B
Appraisal Update and/or Completion Report (Part A)	Fannie Mae Form 1004D
Compliance Inspection Report or the *Appraisal Update and/or Completion Report* (Part B) **Note**: This form is used in conjunction with the Repair Rider and certifies that required repairs have been satisfactorily completed	HUD-92051 Fannie Mae Form 1004D/Freddie Mac Form 442
Repair Cost Estimate, if applicable **Note**: The cost estimate is used in conjunction with the Repair Rider and establishment of the Repair Set-Aside	
Life of Loan Flood Certification	
Evidence of Flood Insurance	
Evidence of Hazard Insurance	
Title Insurance Commitment or other acceptable evidence of title insurance (in an amount not less than the MCA)	
Borrower certification stating no child under six years of age resides or will reside in the home (for Properties built before 1978 with lead-based paint hazards)	
Borrower's Contract with Respect to Hotel and Transient Use of Property (required on 2-, 3-, or 4-unit Properties)	HUD-92561
Exhibits for New Construction	
Builder's Certification of Plans, Specifications, and Site	HUD-92541
Warranty of Completion of Construction	HUD-92544
One of the following: • Certificate of Occupancy or equivalent and Building Permit; or • three FHA inspection; or • Final Inspection	
Local Health Authority Approval for Individual Water and Sewer Systems	
Subterranean Termite Protection Builder's Guarantee	HUD-NPMA-99-A
New Construction Subterranean Termite Service Record	HUD-NPMA-99-B
Wood Destroying Insect Inspection Report or state mandated report	NPMA-33
Waivers – Property specific issued by HOC, if applicable	
LOMR, LOMA, or FEMA NFIP Elevation Certificate	FEMA Form FF-206-FY-22-152
Manufactured Housing	
Engineer's Certification for Manufactured Housing Foundation	

HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
LOMR, LOMA, or FEMA NFIP Elevation Certificate	FEMA Form FF-206-FY-22-152
Condominiums	
FHA Condominium Loan Level/Single-Unit Approval Questionnaire	HUD-9991
HO-6 (Walls-In) Certificate of Insurance or Insurance Policy	
Condominium Rider, if applicable	
Specialized Eligibility Documents	
Presidentially-Declared Major Disaster Area Initial and/or Final Damage Inspection Report	
Presidentially-Declared Major Disaster Area Interior and Exterior Photographs	
Presidentially-Declared Major Disaster Area Repair Escrow Statement, if applicable	
HECM for Purchase Transactions	
Sales Contract	
Amendatory Clause	
Real Estate Certification	
Other contract addenda or short sale approval	
Chain of Title and Title Evidence demonstrating Good and Marketable Title	
Underwriting Documentation	
Request for Late Endorsement and Certification stating the HECM is in good standing and Property Charges are current, if applicable.	
Certificate of HECM Counseling certificate(s) (received from a HUD-approved housing counseling agency and signed and dated by the Borrower and HECM counselor)	HUD-92902
HECM Financial Assessment Worksheet, or equivalent, signed by the underwriter, and any supporting documentation relevant to the underwriting decision	
Borrower and Non-Borrowing Spouse Certifications	
Non-Borrowing Spouse and Non-Borrowing Owner Acknowledgement and Certification	
Evidence of Marital Status **Note**: This may include marriage certificate	
First Note	
First Security Instrument (Mortgage or Deed of Trust) and all applicable riders	
Second Note (optional for fixed rate HECMs) (Original mailed directly to HUD's Servicing Contractor)	

HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Second Security Instrument (Mortgage or Deed of Trust) and all applicable riders (Original mailed directly to HUD's Servicing Contractor)	
HUD-1 Settlement Statement and HUD-1 Addendum with Closing Certifications	
Most recent payoff demand for mortgage debt paid off using HECM proceeds	
Borrower authorization to apply unused escrow funds	
Notice to Borrower	
Loan Agreement and the following related exhibits: • schedule of closing costs and liens; • payment plan; and • Repair Rider, if applicable. (Original mailed directly to HUD's Servicing Contractor)	
Initial and Final *Residential Loan Application for Reverse Mortgages* (*RLARM*)	Fannie Mae Form 1009
Initial and Final *HUD Addendum to Uniform Residential Loan Application* (all pages)	HUD-92900-A
HECM Program Description disclosure	
Documentation supporting compliance with seasoning requirements for existing non-HECM liens	
Documentation supporting payoff of HELOC using HECM proceeds	
Legal documentation evidencing release of the Borrower's financial obligation to satisfy the existing HECM	
Borrower Authorization for Verification	
Borrower Authorization for Use of Information Protected under the Privacy Act	
Cited Extenuating Circumstances and/or Compensating Factors	
Mortgagee's decision to require a Fully Funded or Partially Funded LESA	
Calculation of the Projected Life Expectancy Property Charges	
Evidence of the calculation of the amount of the LESA	
Evidence of CAIVRS authorization code and SAM/LDP check	
Good Faith Estimate, including initial and revised GFEs, if applicable	

HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Evidence of calculations for: • Principal Limit; and • monthly payment or line of credit. A screen print is acceptable.	
Power of Attorney	
Waiver of three-day right of recession, if applicable	
Court order appointing a conservator or guardian	
Trust Agreement or the Declaration of Trust, if applicable	
Documents granting the borrower a Life Estate, if applicable	
Mortgage Riders & Allonges	
Subordinate Lien Agreement	
Title Evidence demonstrating Good and Marketable Title	
HECM-to-HECM Refinance Documentation	
Home Equity Conversion Mortgage (HECM) Anti-Churning Disclosure	HUD-92901
Payoff Statement(s) for all liens to be satisfied with mortgage proceeds	
All supporting calculations for blocks 1 and 2 on the Anti-Churning Disclosure	
Borrower Identification Documentation	
Evidence of the Borrower's age and Eligible NBS's age, if applicable	
Evidence of the Borrower's SSN and Eligible NBS's SSN, if applicable	
Credit and Capacity Documentation	
Credit report(s)	
Evidence of CAIVRS authorization code and SAM/LDP check	
Verification of Mortgage or rent	
Verification of Property Charges	
Tax deferral waiver or exemption	
Credit-related documentation and explanations	
Source of Funds Verification	
Verification of non-gift source of funds	
Verification of gift source of funds	
Income and Employment Documentation	
Verification of Income	
Verification of Assets	
Residual Income Analysis Worksheet	
HECM for Purchase Documentation	
Evidence that Borrower's recent debts were not borrowed to meet the cash investment requirement	

iii. Case Binder Submission – Direct Endorsement [Text was deleted in this section.]

The case binder must be received by FHA no later than 60 Days after the Disbursement Date.

(A) Late Submission

If the case binder is submitted more than 60 Days after the Disbursement Date, the Mortgagee must submit a late endorsement request, certifying that:

- at the time of certification, all payments to the Borrowers have been made in accordance with time frames specified by the payment option;
- the MIP, Late Charge, and interest due have been remitted;
- the Borrower is current in paying their Property Charges, i.e., taxes, Ground Rent, Flood and Hazard Insurance premiums, and special assessments; and
- the Mortgagee or its agent did not provide funds to bring and/or keep the Property Charges current or to bring about the appearance that the Borrower has complied with the obligations of the HECM.

FHA will not insure a HECM that does not comply with FHA requirements when submitted for endorsement.

Each late endorsement request must:

- list the FHA case number;
- list the Borrower's name;
- be dated and signed by the Mortgagee's representative; and
- be printed on company letterhead with the Mortgagee's address and telephone number.

(B) After Receipt of a Notice of Return

Notice of Return (NOR) refers to a notification to the Mortgagee specifying the reason a Mortgage is not currently eligible for endorsement.

If FHA issues a NOR, the Mortgagee may request reconsideration for insurance endorsement. All requests for reconsideration must be received by FHA within the 60-Day endorsement submission period or within 30 Days of the issuance of the NOR, whichever is longer. If the request for reconsideration is submitted after this time period, the Mortgagee must follow the guidelines for late submission.

Mortgagees must resubmit additional documentation for reconsideration and resolution of the NOR.

iv. Ineligible for Endorsement

If the HECM is ineligible for insurance endorsement, FHAC issues a NOR, which states the reasons for non-endorsement and any corrective actions that the Mortgagee must take.

v. Mortgagee with Conditional Direct Endorsement Approval (Test Case)

For Mortgagees who receive a HECM Direct Endorsement Program Test Case phase approval letter from FHA must follow the Test Case Phase Case Binder Submission process.

e. Endorsement and Post-endorsement (04/29/2024)

i. Endorsement

Upon successful completion of a pre-endorsement review by FHA, an electronic Mortgage Insurance Certificate (MIC) will be issued.

The HECM becomes insured on the date the MIC is issued.

ii. Post-endorsement

(A) Confirming Status of the Mortgage Insurance Certificate

The Mortgagee can confirm the endorsement status of a HECM using FHAC or the FHA Connection Business to Government (FHAC-B2G) application.

(B) Obtaining the Mortgage Insurance Certificate

When requesting the MIC, the Mortgagee must specify whether it is to be prepared in the name of the originator (principal) or authorized agent, as it appears in HUD systems.

The MIC will be issued electronically. The Mortgagee can download and print copies of the MIC as needed from FHAC.

(C) Corrections to the Mortgage Insurance Certificate

To obtain a correction to the MIC, the Mortgagee must submit the MIC Correction Request Template to the FHA Resource Center. This form may be used to correct the property address, Borrower name, ADP Code, interest rate, SSN, FHA case number, MCA, Principal Limit amount, or other information contained in the MIC.

(D) Corrections to Original Instruments

The Mortgagee must follow applicable local law when making corrections to the original instruments.

If new instruments are executed as required by local law, the Mortgagee must submit the new instruments prior to insurance endorsement.

(E) Partial Release of Security

FHA approval for partial release of security is required except in limited circumstances. See Servicing and Loss Mitigation for more information.

iii. HECM File Retention

The Mortgagee must retain their HECM file, including the case binder, in either hard copy or electronic format for a period of two years from the date of endorsement.

8. Programs and Products

a. HECM For Purchase (11/10/2026)

The HECM for Purchase program was designed to allow Borrowers to finance a new Principal Residence and obtain a HECM within a single transaction. Title to the Property must be transferred to the Borrower and the first and, if applicable, second liens are the only liens against the Property at the time of closing.

HECMs to be insured under the HECM for Purchase program must be processed and underwritten in accordance with the requirements in Origination through Post-closing/Endorsement, except where noted otherwise in this section.

i. Definition

HECM for Purchase refers to a transaction where the Borrower uses the HECM to finance the purchase of an existing one- to four-unit residence where the Borrower will occupy one unit as their Principal Residence.

Existing Construction refers to a Property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

ii. Initial Application Processing

The Mortgagee may take initial application either before or after the completion of HECM counseling.

iii. Principal Residence Requirements

HECM Borrowers may have only one Principal Residence at any one time. Current Borrowers that plan to sell their existing residence and use the HECM for Purchase program to obtain a new Principal Residence must pay off the existing HECM before the HECM for Purchase transaction can be insured.

Borrowers and Eligible NBSs, if applicable, must occupy the Property within 60 Days from the date of closing.

iv. Initial Mortgage Insurance Premium Amount

The Initial Mortgage Insurance Premium (IMIP) must be financed or paid in cash. Any IMIP amount paid in cash is added to the total cash requirements due at closing.

v. Maximum Claim Amount

(A) Definition

The Maximum Claim Amount (MCA) is the lesser of the:

- appraised value as determined by the Collateral Risk Assessment;
- national mortgage limit; or
- sales contract price.

(B) Standard

The Mortgagee must determine the MCA at origination. When the collateral risk assessment determines that a second appraisal is required, the Mortgagee must use the lower of the two appraised values. The IMIP must not be taken into account in the calculation of the MCA. Closing costs must not be taken into account in determining the appraised value.

vi. Property Eligibility and Acceptability Criteria

(A) Types of Eligible Properties

The Borrower may finance the purchase of a one- to four-unit residence that will be used as their Principal Residence. The Property may be Existing Construction or New Construction. The following property types are eligible for HECM financing:

- Site Built Housing (one- to four-units, one-unit with an Accessory Dwelling Unit (ADU), or two- to four-units);
- Condominium units in Approved Projects or Legal Phases; and
- Manufactured Housing (one-unit or one-unit with an ADU).

Properties previously acquired through a contract for deed, land contract, or other similar arrangements must be treated as a purchase transaction when HECM funds will be used to satisfy outstanding payment obligations.

For Condominium Units seeking Single-Unit Approval, see Property Eligibility in Single-Unit Approval.

FHA treats the sale of an occupied Property that has been completed less than one year from the issuance of the CO or equivalent as an Existing Construction Property.

(B) Construction and Inspection Requirements for New Construction HECM Properties

Mortgagees must ensure New Construction HECM Properties are inspected to ensure compliance with FHA's MPS and MPR. The construction status at the time of appraisal will determine the inspections that must be completed.

(1) Site Built Housing

(a) Proposed Construction

For Properties in the Proposed Construction status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- copies of the building permit (or equivalent) and CO (or equivalent); or
- three inspections (footing, framing, and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI (for Modular Housing, footing and final only); or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain three inspections (footing, framing, and final) performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(b) Under Construction

For Properties in the Under Construction status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- copies of the building permit (or equivalent) and CO (or equivalent); or
- a final inspection issued by the local authority with jurisdiction over the Property or by an ICC certified RCI or CI; or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(c) Existing Less than One Year

For Properties in the Existing Less than One Year status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- a copy of the CO (or equivalent); or
- a final inspection issued by the local authority with jurisdiction over the Property or by an ICC certified RCI or CI; or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located.

(2) Manufactured Housing

(a) Proposed Construction

For Properties in the Proposed Construction status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- copies of the building permit (or equivalent) and CO (or equivalent); or
- two inspections (initial and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain two inspections (initial and final) performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(b) Under Construction

For Properties in the Under Construction status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- copies of the building permit (or equivalent) and CO (or equivalent); or
- a final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(c) Existing Less than One Year

For Properties in the Existing Less than One Year status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- a copy of the CO (or equivalent); or
- a final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the State in which the property is located.

(3) Units in Condominium Project or Legal Phase (Existing Less Than One Year)

The Mortgagee must obtain a CO or its equivalent.

(4) Required Documentation for New Construction Properties

The Mortgagee must obtain and include the following documents in the case binder:

- form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*;
- form HUD-92544, *Warranty of Completion of Construction*;
- a copy of the CO (or equivalent), if applicable;
- required inspections, as applicable:
  - inspections performed by an ICC certified RCI or CI or a third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor must be reported on form HUD-92051, *Compliance Inspection Report*, or on an appropriate state-sanctioned inspection form; and
  - when a third party, who is a registered architect, a structural engineer, or a qualified tradesperson or contractor, is relied upon for required inspections due to the absence of an ICC certified RCI or CI, a certification from such inspector that they are licensed and bonded under applicable state and local laws to perform the type of inspection completed must be included;
- a Wood Infestation Report, unless the Property is located in a county listed as not required on HUD's "Termite Treatment Exception Areas" list:
  - form HUD-NPMA-99-A, *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry, or concrete building components with only minor interior wood trim and roof sheathing, no treatment is

needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.

- form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record*, is required when the New Construction Property is treated with one of the following: Termite Bait System, Field Applied Wood Treatment, soil chemical termiticide, or Physical Barrier System is installed, as reflected on form HUD-NPMA-99-A. The Mortgagee must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation; and

- local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

(C) Documents to be Provided to Appraiser at Assignment

The Mortgagee must provide the Appraiser with a fully executed form HUD-92541, signed and dated no more than 30 Days prior to the date the appraisal was ordered.

For Properties 90 percent completed or less, the Mortgagee must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow the Appraiser to determine the size and level of finish of the house they are appraising.

For Properties greater than 90 percent but less than 100 percent completed, the Mortgagee must provide the Appraiser with a list of components to be installed or completed after the date of inspection.

(D) Property Considerations

New Construction must meet HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

(E) Mortgagee Review of Appraisal

(1) Site Considerations

(a) Environmental

The Mortgagee must require corrective work to mitigate any condition that arises during construction that may affect the health and safety of the occupants, the Property's ability to serve as collateral, or the structural soundness of the improvements.

(b) Operating Oil or Gas Wells

If a New Construction dwelling is located within 75 feet of an operating oil or gas well, the Mortgagee must reject the Property unless mitigation measures are completed.

(c) Slush Pits

If a Property is Proposed Construction near an active or abandoned Slush Pit, the Appraiser must require a survey to locate the pit. The Mortgagee is to assess any impact on the subject Property.

(d) Special Airport Hazards

If a New Construction Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the Property for insurance.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

(e) Flood Hazard Areas

If any portion of the dwelling and related Structures or equipment essential to the Property Value is located in a Special Flood Hazard Area (SFHA), the Mortgagee must reject the Property, unless the Mortgagee:

- obtains a Federal Emergency Management Agency (FEMA)-issued final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA; or
- obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form FF-206-FY-22-152) that documents that the lowest floor of the residential building, including the basement, and all related Structures or equipment essential to the Property Value are built at or above the 100-year flood elevation in compliance with the NFIP criteria; and
- ensures that the Elevation Certificate is completed based on finished construction.

The Mortgagee must include the LOMA, LOMR, or FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) with the case when it is submitted for endorsement.

The Mortgagee must ensure that Flood Insurance is obtained when a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) documents that the Property remains located within an SFHA.

(f) Individual Water Supply Systems (Wells)

The Mortgagee must ensure that new wells are drilled and are no less than 20 feet deep and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.

A well located within the foundation walls of New Construction is not acceptable except in arctic or subarctic regions.

(i) Requirements for Well Water Testing

A well water test is required for all newly constructed Properties.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

The following tables provide the minimum distance required between wells and sources of pollution:

Water Well Location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water-tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan, or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

Individual Water System Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) and (2)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

(ii) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or locality. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(g) Shared Well

(i) Definition

Shared Well refers to a well that services two to four homes where there is a binding Shared Well Agreement between the property owners that meets FHA requirements.

(ii) Standard

A Shared Well is permitted if the requirements in Shared Wells are met.

(F) Sales Comparison Approach: Comparable Selection

For Properties in new subdivisions, the selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project.

(G) Seller Must Be Owner of Record

(1) Standard

To be eligible for a HECM insured by FHA, a Property must be purchased from the owner of record. The transaction may not involve any sale or assignment of the sales contract.

(2) Required Documentation

The Mortgagee must obtain documentation verifying that the seller is the owner of record.

Such documentation may include, but is not limited to:

- a property sales history report;
- a copy of the recorded deed from the seller; or
- other documentation, such as a copy of a property tax bill, title commitment, or binder demonstrating the seller's ownership of the Property and the date it was acquired.

(H) Restrictions on Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value.

(1) Definition

Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

Seller's Date of Acquisition refers to the date the seller acquired legal ownership of that Property.

Resale Date refers to the date all parties have executed the sales contract that will result in the FHA-insured HECM for the resale of the Property.

(2) Standard

(a) Time Restriction on Transfers of Title

The eligibility of a Property for a HECM insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the Property and the resale date.

(b) Restriction on Resales Occurring 90 Days or Fewer after Acquisition

A Property that is being resold 90 Days or fewer following the seller's date of acquisition is not eligible for an FHA-insured HECM.

(c) Exceptions to Time Restrictions on Resale

Exceptions to the 90-Day resale restriction are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- resales by HUD under its REO program;
- sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies;
- sales of Properties by nonprofits approved to purchase HUD-owned Single Family Properties at a discount with resale restrictions;
- sales of Properties that are acquired by the seller by inheritance;
- sales of Properties by state and federally chartered financial institutions and Government-Sponsored Enterprises (GSEs);
- sales of Properties by local and state government agencies; and
- sales of Properties within Presidentially-Declared Major Disaster Areas (PDMDA), only upon issuance of a notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 206.52(b) do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

(3) Required Documentation

The Mortgagee must obtain a 12-month chain of title documenting compliance with time restrictions on resales.

vii. Completion of Construction

Regardless of the inspection process used, the Mortgagee must certify on form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* that the Property is 100 percent complete and meets HUD's MPR and MPS.

viii. Minimum Required Repairs

For HECM for Purchase transactions, the seller must complete all repairs necessary to:

- maintain the safety, security, and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.

The Appraiser must complete the appraisal as "Subject To" the completion of all required repairs.

ix. Sales Contract and Supporting Documentation

(A) Standard

The Mortgagee must not originate an insured HECM for the purchase of a Property if any provision of the sales contract violates FHA requirements.

The Mortgagee must ensure that (1) all purchasers listed on the sales contract are Borrowers, and (2) only those Borrowers may sign the sales contract. The Mortgagee may also list a Non-Borrowing Spouse (NBS) on the sales contract, but the NBS is not required to sign the sales contract.

An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.

(1) Amendatory Clause

If the Borrower does not receive form HUD-92800.5B before signing the sales contract, the sales contract must include or be amended before closing to include an amendatory clause that contains the following language:

"It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than $_____*. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable."

Mortgagees must ensure the actual dollar amount of the sales price stated in the contract has been inserted in the amendatory clause. Increases to the sales price require a revised amendatory clause.

An amendatory clause is not required in connection with:

- HUD Real Estate Owned (REO) sales; or
- sales in which the seller is:
  - Fannie Mae;
  - Freddie Mac;
  - U.S. Department of Veterans Affairs (VA);
  - United States Department of Agriculture (USDA) Rural Housing Services;
  - other federal, state, and local government agencies;
  - a Mortgagee disposing of REO assets; or
  - a seller at a foreclosure sale.

(2) Real Estate Certification

The Borrower, seller, and real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that (1) the terms and conditions of the sales contract are true and (2) any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

A separate certification is not needed if the sales contract contains a statement that (1) there are no other agreements between parties and the terms constitute the entire agreement between the parties, and (2) all parties are signatories to the sales contract submitted at the time the financial assessment is performed.

(3) Property Assessed Clean Energy

Where the subject Property is encumbered with a Property Assessed Clean Energy (PACE) obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to, closing.

(B) Required Documentation

The Mortgagee must obtain all signed copies of sales contract(s), including a complete copy of the final sales contract with any modifications or revisions agreed upon by the Borrower and seller.

The documentation must also include the amendatory clause executed by all parties, Real Estate Certification executed by all parties, and all other contract addenda.

(C) Ordering a Second Appraisal

The Mortgagee is prohibited from ordering an additional appraisal to achieve an increase in value for the Property and/or the elimination or reduction of deficiencies and/or repairs required.

The Mortgagee may order a second appraisal for transactions that are in accordance with requirements on Property Flipping.

x. HUD Required Disclosures

(A) Lead-Based Paint

If the Property was built before 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house, in accordance with the HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CFR 745, subpart F). For such Properties, the Mortgagee must ensure that:

- the Borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards ("Protect Your Family from Lead in Your Home");
- the Borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or the Borrower waived the opportunity;
- the sales contract contains an attachment in the language of the contract (e.g., English, Spanish) signed and dated by both the seller and purchaser:
  - containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1);
  - providing the seller's disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;

- listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
- affirming that the Borrower received the pamphlet, disclosure, and records or reports above; and

- when any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller's Lead Disclosure Rule obligations, and the agent is aware of their duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

(B) Form HUD-92564-CN, *For Your Protection: Get A Home Inspection*

Mortgagees are required to provide form HUD-92564-CN, *For Your Protection: Get a Home Inspection,* to prospective homebuyers at initial application.

xi. Underwriting the Property

(A) Required Repairs

Where major property deficiencies threaten the health and safety of the homeowner and/or jeopardize the soundness and security of the Property, all repairs must be completed by the seller prior to closing. A Repair Set-Aside is not permitted.

(B) Chain of Title

The Mortgagee must review the appraisal to determine if the subject Property was sold within 12 months prior to the case number assignment date. If the subject Property was sold within the previous 12 months, the Mortgagee must review evidence of prior ownership and for compliance with Restrictions on Property Flipping.

xii. Performing the Financial Assessment

(A) Credit History Requirements

(1) Types of Credit History

If a traditional credit report is available, the Mortgagee must use a traditional credit report.

If a traditional credit report is not available, the Mortgagee must develop the Borrower's credit history using the requirements for non-traditional and insufficient credit.

(a) Non-Traditional Credit Requirements

For Borrowers without a credit score, the Mortgagee must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below.

(b) Non-Traditional Mortgage Credit Report

(i) Definition

A Non-Traditional Mortgage Credit Report (NTMCR) is designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report and is used either as:

- a substitute for a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR); or
- a supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

(ii) Standard

Mortgagees may use an NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the Borrower; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide:

- creditor's name;
- date of opening;
- high credit;
- current status of the account;
- 12-month history of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (for example, 0x30 and 0x60).

(iii) Independent Verification of Non-Traditional Credit

The Mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

To verify the existence of each credit provider, the Mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.

To verify credit information, the Mortgagee must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the Borrower; and
- obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the Borrower's rental payment history, the Mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(iv) Sufficiency of Credit References

To be sufficient to establish the Borrower's credit, the credit history must include three credit references. The Borrower's credit history must include at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;
  - water;
  - television service; or
  - internet service.

If the Mortgagee cannot obtain all three credit references from the list above, the Mortgagee may use the following sources of unreported recurring debt to obtain the remaining one or two credit references needed:

- insurance premiums not payroll deducted (for example, medical, auto, life, or renter's insurance);
- payment to child care providers made to businesses that provide such services;

- school tuition;
- retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
- rent-to-own (for example, furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
  - were made at least quarterly;
  - were not payroll deducted; and
  - caused no Insufficient Funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

(2) Bankruptcy

(a) Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from consideration for a HECM for Purchase if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During the most recent two years, the Borrower must have:

- reestablished good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

- can show that the bankruptcy was caused by Extenuating Circumstances beyond the Borrower's control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(b) Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from consideration for a HECM for Purchase, if at the time of case number assignment, the bankruptcy has been discharged or at least 12 months of the payout period under the bankruptcy has elapsed.

If the bankruptcy has not been discharged, the Mortgagee must determine that, during the most recent 12 months, the Borrower's payment performance has been satisfactory, all required payments have been made on time, and the Borrower has received written permission from the bankruptcy court to enter into the mortgage transaction.

The Mortgagee must include the payment amount in the court-approved payment plan in the Borrower's expenses when calculating Residual Income.

(c) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Mortgagee must obtain the bankruptcy and discharge documents.

The Mortgagee must also document that the Borrower's current situation indicates that the events that led to the bankruptcy are not likely to recur.

(B) Other Sources of Effective Income

Boarders of the Subject Property

The Mortgagee must obtain a copy of the executed written agreement documenting the intent of the Boarders to continue boarding with the Borrower.

(C) Asset Requirements – Acceptable Sources of Funds

(1) Earnest Money Deposit

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a Third Party Verification (TPV) vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of HECM Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with Standards for Gifts.

(2) Monetary Investment

(a) Definition

Monetary Investment refers to the amount Borrowers must provide to satisfy the difference between the Principal Limit and the sale price for the Property, plus any HECM-related fees that are not financed into the HECM, minus the amount of the earnest deposit.

(b) Source Requirements for the Borrower's Monetary Investment

(i) Acceptable Monetary Investment Funding Sources

To satisfy the required monetary investment, Borrowers may use:

- Cash on Hand;
- cash from the sale or liquidation of the Borrower's assets;
- HECM proceeds;
- Interested Party Contributions; and
- other Acceptable Sources of Funds.

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

A Borrower who also serves as the licensed real estate agent on a HECM for Purchase transaction may use the real estate commission to satisfy the required monetary investment.

The Borrower may choose to provide a larger investment amount in order to retain a portion of the available HECM proceeds for future draws.

(ii) Unacceptable Monetary Investment Funding Sources

The Borrower may not use the following funding sources to satisfy the required monetary investment:

- Sweat Equity;
- Trade Equity;
- rent credit; or
- Premium Pricing.

(iii) Required Documentation

The Mortgagee must document that the Borrower's monetary investment is from an acceptable monetary investment funding source and there will be no outstanding or unpaid obligations incurred by the Borrower in connection with the HECM for Purchase transaction.

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Subject Property being purchased.

(3) Interested Party Contributions

(a) Definitions

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third-Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party or combination of parties, toward the Borrower's loan origination fees, other closing costs including any items Paid Outside Closing (POC), and prepaid items.

(b) Standard

Interested Parties, excluding Mortgagees and TPOs, may contribute up to 6 percent of the sales price toward the following items:

- loan origination fees;
- other closing costs;
- prepaid items; and
- payment of the IMIP.

No other items may be paid for by an Interested Party.

Mortgagees and TPOs are prohibited from making any Interested Party Contributions.

Exceptions

Fees required to be paid by a seller under state or local law or customarily paid by a seller in the subject property locality, including real estate agent commissions or fees, and the purchase of the Home Warranty policy by the seller are already permitted under 24 CFR § 206.44(c)(1) and will be excluded from the six percent interested party contribution limit.

Mortgagees may pay for services performed by a sponsored TPO if allowed under the Loan Origination Fee Calculation requirements.

The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(c) Required Documentation

The Mortgagee must accurately document the total amount of Interested Party Contributions on the HUD-1 Settlement Statement, and reflected on the sales contract or applicable legally binding document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

xiii. Closing

(A) HUD-1 Addendum Closing Certifications

The Mortgagee must obtain the final HUD-1 Settlement Statement or similar legal document from the settlement agent. If the seller's HUD-1 Settlement Statement or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final disclosure provided to the seller to keep in the case binder.

(B) Seller Certification

The seller must sign the certification to the Addendum to HUD-1 Settlement Statement.

(C) Inspection and Repair Requirements for HECMs Pending Closing in Presidentially-Declared Major Disaster Areas

For HECM for Purchase transactions that have not closed, repairs must be completed prior to closing and the cost of repairs is the responsibility of the seller.

(D) Closing Costs and Fees

(1) Mandatory Obligations

The Mortgagee may use HECM proceeds to satisfy the Borrower's Mandatory Obligations.

Mandatory Obligations include:

- IMIP;
- loan origination fee;
- HECM counseling fee;
- reasonable and customary amounts, but not more than the amount actually paid by the Mortgagee for any of the following items:
  - recording fees and recording taxes or other charges incident to the recordation of the insured HECM;
  - credit report;
  - survey, if required by the Mortgagee or the Borrower;

  - title examination;
  - Mortgagee's title insurance; and
  - fees paid to an Appraiser for the initial appraisal of the Property;
- delinquent Federal Debt;
- fees and charges for real estate sales contracts, warranties, inspections, surveys, and engineer certifications;
- the total amount of property tax and Flood and Hazard Insurance charges scheduled for payment during the First 12-Month Disbursement Period from a Fully Funded LESA. Mortgagees must use the actual insurance premium and actual tax amount;
- property tax and Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing;
- the amount of the principal that is advanced toward the purchase price of the subject Property;
- other charges as authorized by the Secretary; and
- for adjustable rate HECMs:
  - the total amount of property charge payments scheduled for payment through the optional Borrower authorized option during the First 12-Month Disbursement Period; and
  - the total amount of semiannual Disbursements scheduled to be made during the First 12-Month Disbursement Period to the Borrower from a Partially Funded LESA.

(2) Property Assessed Clean Energy

The PACE obligation must be paid off in full by the seller prior to or at closing.

(3) Discount Points and Interest Rate Buydowns

The Mortgagee may not charge Discount Points.

Temporary and permanent interest rate buydowns are not permitted.

(4) Interested Party Contributions on the HUD-1 Settlement Statement

The Mortgagee may apply permissible Interested Party Contributions toward the Borrower's closing costs and other fees required to obtain a HECM.

The Mortgagee must identify the total Interested Party Contributions on the front page of the HUD-1 Settlement Statement or similar legal document or in an addendum, and on Exhibit 2 – Schedule of Closing Costs. The Mortgagee must identify each item and fee paid by an Interested Party Contribution.

(E) Mortgage and Note

All Borrowers and co-Borrowers must take title to the Property in their own name or a living trust at settlement, be obligated on the Note or credit instrument, and sign all security instruments. In community property states, the Borrower's spouse is not required to be a Borrower or a Co-signer. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

(F) Certificate of Occupancy

(1) Standard

The Mortgagee must obtain a copy of the CO, or its equivalent, if the date of the issuance of the CO or equivalent is less than one year before closing and the Property has never been occupied.

(2) Required Documentation

The Mortgagee must obtain a copy of the CO or its equivalent issued by the local jurisdiction, ICC RCI, or CI.

xiv. Post-closing and Endorsement

(A) Settlement Statement and Settlement Certification

If the HUD-1 Settlement Statement or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final statement provided to the seller to keep in the case binder.

(B) Form NPMA-33, *Wood Destroying Insect Inspection Report*

The Mortgagee must confirm that the HECM file contains the National Pest Management Association (NPMA) form NPMA-33, *Wood Destroying Insect Inspection Report*, or the state mandated infestation report, as applicable.

(C) Local Health Authority's Approval for Individual Water and Sewer Systems

The Mortgagee must confirm that the HECM file contains the Local Health Authority's approval for Individual Water Supply Systems and sewer systems, if applicable.

(D) HECM for Purchase New Construction Exhibits

The Mortgagee must confirm that the documentation requirements found in the HECM for Purchase product sheet are in the HECM file.

b. HECM Refinance (04/29/2024)

HECMs to be insured under the HECM Refinance program must be processed and underwritten in accordance with the requirements in Origination through Post-closing/Endorsement, except where noted otherwise in this section.

i. Definition

HECM-to-HECM Refinance (HECM Refinance) refers to a new HECM where the proceeds will be used to pay off the property indebtedness of the current HECM and any existing eligible lien.

Original HECM refers to the first HECM that was endorsed by FHA.

Mortgagee Optional Election (MOE) Assignment refers to an assignment option available to Mortgagees for cases where an FHA case number was assigned prior to August 4, 2014, and is associated with an Eligible Surviving NBS.

ii. Standard

The Borrower must pay off any existing non-HECM lien on the subject Property that cannot be subordinated to the first and second HECM liens, and costs associated with the refinance transaction.

When the HECM is in a deferred Due and Payable status, due to the death of all Borrowers, and the Eligible Non-Borrowing Spouse (NBS) seeks to obtain a HECM as a Borrower on the Property serving as collateral for the existing HECM, the transaction cannot be originated as a HECM Refinance, but must be originated as a traditional transaction provided that all Borrower eligibility requirements are met.

iii. Counseling Requirements

Waiver of Counseling on HECM Refinances

The Borrower and NBS may elect not to receive counseling in a HECM Refinance if the following conditions are met:

(i) the original HECM was assigned a case number on or after August 4, 2014, and the Borrower and NBS, if applicable, received HECM counseling; or the original HECM was assigned a case number prior to August 4, 2014, and there is no NBS as determined by the MOE Assignment policies;

(ii) the Borrower has received form HUD-92901, *Home Equity Conversion Mortgage (HECM) Anti-Churning Disclosure.* See HECM Anti-Churning Disclosure;

(iii) the increase in the Borrower's Principal Limit (block 2 of form HUD-92901) exceeds the total cost of the refinancing by an amount equal to five times the cost of the transaction (block 1 of form HUD-92901); and

(iv) the time between the date of closing on the original HECM (i.e., the first time the Borrower obtains an FHA-insured HECM) and the application for refinancing does not exceed five years, even if less than five years have passed since a previous refinancing.

The five-year period in bullet (iv) above does not restart with each new refinance, even when the Borrower has received HECM counseling since the original HECM. Mortgagees are responsible for obtaining documentation to confirm the date of closing of the original HECM.

iv. Processing of a HECM Refinance

(A) Churning

(1) Definition

Churning refers to a practice whereby Mortgagees engage in multiple refinances to generate additional profit from fees and charges. The churned HECMs are not made in the interest of the Borrower and provide no financial benefit to the Borrower.

(2) Standard

The Mortgagee must provide the Borrower with a completed form HUD-92901, within three Days of taking initial loan application, disclosing:

- their best estimate of the total cost of the mortgage transaction;
- the increase or decrease in the Borrower's Principal Limit; and
- the amount of any additional HECM funds that will be available to the Borrower as a result of the refinancing.

If the Principal Limit of the HECM Refinance is lower than the Borrower's current Principal Limit, the change must be entered as a negative number.

(3) Required Documentation

HECM Anti-Churning Disclosure

Confirm the original form HUD-92901 is signed and dated by the Borrower.

The Settlement Statement or similar legal document must indicate that all existing mortgage liens have been fully satisfied or are subordinate to the first and second HECM liens.

(B) Ordering a Case Number

The Mortgagee must enter the FHA case number of the existing HECM being refinanced. FHAC will not issue a case number if the existing case number is

"terminated" or Due and Payable. The Mortgagee must terminate the existing case number in HERMIT after closing and once the outstanding loan balance of the existing HECM is satisfied.

v. Property Eligibility

Condominium Refinances

HECM Refinance transactions do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

vi. Allowable Mortgage Parameters

(A) Reduction of Initial Mortgage Insurance Premium

At least one Borrower from the original HECM must be a Borrower on the HECM Refinance for the transaction to be eligible for reduced Initial Mortgage Insurance Premium (IMIP).

(B) Calculation of Initial Mortgage Insurance Premium

Mortgagees must use the formula below to determine IMIP due ($IMIP_{due}$) to HUD:

(1) $\text{IMIP}_{\text{new}} = \text{MCA}_{\text{new}} \times \text{IMIP rate}_{\text{new}}$

(2) $\text{IMIP}_{\text{old}} = \text{MCA}_{\text{old}} \times \text{IMIP rate}_{\text{old}}$

or, if this HECM has previously been refinanced:

$\text{IMIP}_{\text{old}} = \text{MCA}_{\text{old}} \times \text{IMIP rate}_{\text{old}} - \text{previous IMIP credit}$

(3) $\text{IMIP}_{\text{limit}} = [(\text{MCA}_{\text{new}} - \text{MCA}_{\text{old}}) \times 0.03] - \text{IMIP}_{\text{old}}$

(4) $\text{IMIP}_{\text{due}} = \min_{x \geq 0}(\text{IMIP}_{\text{limit}}, \text{IMIP}_{\text{new}})$

$IMIP_{new}$ is calculated by multiplying the new IMIP rate by the new MCA of the property being refinanced.

For HECMs being refinanced for the first time, $IMIP_{old}$ is calculated by multiplying the original IMIP rate by the original MCA of the property being refinanced.

For HECMs previously refinanced, $IMIP_{old}$ is calculated by multiplying the prior IMIP rate by the prior MCA of the property being refinanced, then subtracting IMIP credit previously applied.

$IMIP_{limit}$ is calculated by multiplying 0.03 by the difference between the new MCA and old MCA, then subtracting the value calculated for $IMIP_{old}$.

$IMIP_{due}$ is the lesser of $IMIP_{limit}$ or $IMIP_{new}$, but cannot be less than zero.

If IMIP paid on the existing HECM is greater than the new IMIP due, there will be no refunds. No additional credit is given for the IMIP paid on the last HECM transaction.

(C) Calculation of Monthly Mortgage Insurance Premium

Mortgagees must use the formula of one-twelfth of 0.50 percent multiplied by the outstanding mortgage balance to calculate the monthly Mortgage Insurance Premium (MIP). The amount of the annual MIP will begin to accrue on the outstanding mortgage balance from the day after the expiration of the rescission period.

c. Condominiums (11/10/2026)

The Federal Housing Administration (FHA) will insure HECMs on Condominium Units (Units) in Approved Condominium Projects that have been approved under the HUD Review and Approval Process (HRAP) or Direct Endorsement Lender Review and Approval Process (DELRAP). In addition, FHA will insure HECMs on Units approved in accordance with the Single-Unit Approval section or that meet the definition and standards for a Site Condominium.

i. Units Not Requiring Approval

(A) Real Estate Owned Mortgages

HUD Real Estate Owned (REO) HECM transactions do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

(B) HECM-to-HECM Refinances

HECM Refinances do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

ii. Requirements for Units in Approved Condominium Projects

The Mortgagee must verify the following requirements for individual Units located in an Approved Condominium Project or Legal Phase.

(A) Condominium Project Approval Status

The Mortgagee must confirm the Condominium Project is on the list of FHA-Approved Condominium Projects at the time of case number assignment and must enter the FHA Condo ID in the Federal Housing Administration Connection (FHAC) Case Assignment screen.

(B) FHA Insurance Concentration

(1) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(2) Standard

FHA may suspend the issuance of new FHA case numbers for a HECM on a Unit in a Condominium Project where the FHA Insurance Concentration is greater than 50 percent of the total number of Units in the Condominium Project.

(C) Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire*

(1) Definition

Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire,* refers to a set of questions designed to collect pertinent loan, Condominium Project, and Unit information for FHA insurance endorsement.

(2) Standard

The Mortgagee must submit a completed, signed, and dated form HUD-9991.

(D) Owner Occupancy Percentage

(1) Definitions

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(2) Standard

The Mortgagee must determine the Approved Condominium Project has an Owner Occupancy Percentage of at least 35 percent of the total number of Units.

The Mortgagee must report the Owner Occupancy Percentage in FHAC when the functionality becomes available.

(3) Required Documentation

The Mortgagee must submit form HUD-9991.

(4) Calculation

For the sole purpose of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units in the numerator of the calculation:

- any Unit that is occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as their place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purpose of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder or developer is not an owner-occupied Unit.

(E) Financial Condition

(1) Units in Arrears

(a) Definition

Units in Arrears refer to each Unit with Condominium Association dues or any special assessments that are more than 60 Days past due.

(b) Standard

The Mortgagee must verify that no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(2) Individual Owner Concentration

(a) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes, but is not limited to:

- an individual serving as the Unit owner's officer, director, or employee; or
- a Unit owner's direct parent company, subsidiary, or any related entity with which the Unit owner shares a common officer or director.

(b) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

Exception

Affordable housing Units owned by an eligible governmental or nonprofit program defined in 24 CFR § 203.41 are not subject to the Individual Owner Concentration requirements. The affordable housing Units must be identified by recorded legal documents.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(d) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- on a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except unoccupied and unsold Units owned by a builder or developer, which are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut Rehabilitation (Gut Rehab) to calculate the Individual Owner Concentration.

(F) Insurance

(1) Walls-In (HO-6)

(a) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(b) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In policy (HO-6) if the master or blanket policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

(c) Required Documentation

The Mortgagee must submit form HUD-9991 and the certificate of insurance or complete copy of the insurance policy.

(2) Hazard Insurance

(a) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences.

(b) Standard

The Mortgagee must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Condominium Project. The Condominium Association's master or blanket Hazard Insurance policy must be in an amount to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Approved Condominium Project.

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement, selection of the agreed value option, or an amount of coverage to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Approved Condominium Project.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

Hazard Insurance must be maintained over the lifecycle of the HECM.

(c) Required Documentation

The Mortgagee must submit form HUD-9991, the certificate of insurance or complete copy of the insurance policy, and if applicable, acceptable evidence of the replacement cost value.

(3) Flood Insurance

(a) Standard

Flood Insurance for Condominiums must meet the requirements in Flood Insurance.

The Mortgagee must verify that the Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continues to meet the Flood Insurance requirements in the Condominium Project Approval section.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(b) Required Documentation

The Mortgagee must submit:

- form HUD-9991;
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152); and
- if applicable, the certificate of insurance or a complete copy of the Flood Insurance policy.

(4) Exception for FHA Insurance Requirements

This exception applies to Manufactured Home Condominium Projects, Detached Condominium Housing Projects, and Common Interest Housing Developments unable to satisfy the current insurance requirements.

(a) Definitions

A Manufactured Home Condominium Project (MHCP) refers to a Condominium Project that consists of two or more Manufactured Homes.

A Detached Condominium Housing Project (DCHP) refers to a Condominium Project that has individual detached Single Family Dwelling Units, garage, and onsite improvements that are owned and maintained by the homeowner. The ground beneath the residential improvements is owned by the Condominium Association or Homeowners' Association (HOA) or is under a long-term leasehold interest and considered common area or limited common area.

A Common Interest Housing Development (CIHD) refers to a planned residential community that may consist of Units within a two- to four-unit building and/or contain multiple housing types, structured with different ownership interests, managed by a common Condominium Association or HOA, and governed under one Declaration of Covenants, Conditions, and Restrictions (CC&Rs). The CIHD may share a variety of common amenities and services.

(b) Standard

The Mortgagee must verify that the Unit owners and the Condominium Association or HOA comply with FHA insurance coverage requirements.

(i) Manufactured Housing Condominium Project

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the MHCP is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance (Walls-In);
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; or
- a Flood Insurance policy, provided that the governing documents require the Unit owners to maintain individual Flood Insurance if the Unit has been identified as located in a Special Flood Hazard Area (SFHA).

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(ii) Detached Condominium Housing Project

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(iii) Common Interest Housing Development

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two- to four-units within the project to maintain and carry property insurance for the dwelling, site area, and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Liability, and Flood insurance for the Structures that contain the attached units and the common areas of the project.

(c) Required Documentation

The Mortgagee must submit form HUD-9991 and the certificates of insurance or complete copies of the insurance policies.

(G) Leasehold Interest

(1) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

The Mortgagee must determine if the Unit is owned under a Leasehold Interest and complies with the leasehold guidance.

(3) Required Documentation

The Mortgagee must document verification of compliance and submit the required documentation in the leasehold guidance.

(H) Existing Less than One Year

(1) Definitions

Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

Complete Condominium Project refers to a Condominium Project consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project, and not subject to further rehabilitation or construction.

(2) Standard

For Complete Condominium Projects, the Mortgagee must comply with the General Condominium Project Approval Requirements and the guidance in Construction and Inspection Requirements for New Construction HECM Properties.

(3) Required Documentation

The Mortgagee must submit required documentation for Existing Less than One Year under the guidance in Required Documentation for New Construction Properties.

(I) Manufactured Housing

(1) Definition

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional eligibility standards prescribed in Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages.

A Manufactured Home refers to a single Dwelling Unit of Manufactured Housing.

(2) Standard

For a Manufactured Home, the Mortgagee must comply with the General Condominium Project Approval Requirements and the guidance in Property Types - Manufactured Housing.

For HECM for Purchase transactions, the Mortgagee must comply with the guidance in Construction and Inspection Requirements for New Construction HECM Properties.

(3) Required Documentation

The Mortgagee must submit form HUD-9991 and the required documentation for Manufactured Housing under the guidance in Property Types - Manufactured Housing.

iii. Single-Unit Approval

Single-Unit Approval refers to approval of a Unit in a Condominium Project that is not an Approved Condominium Project.

The Mortgagee must verify that the Unit and Condominium Project are in compliance with the following requirements.

(A) Condominium Project Approval Status

The Mortgagee must confirm the Condominium Project is not on the list of FHA-Approved Condominium Projects at the time of case number assignment.

(B) Borrower Eligibility

To be eligible for Single-Unit Approval, the Mortgagee must verify that the HECM Borrower:

- meets the applicable Residual Income standard without the use of Compensating Factors; and
- has a Satisfactory Property Charge Payment History without the use of Extenuating Circumstances.

(C) Property Eligibility

The Mortgagee must confirm that the Condominium Project:

- has a CO or equivalent for all units in the Complete Condominium Project or Complete Legal Phase;
- has a CO or equivalent for the subject Unit that was issued at least one year ago or has been occupied;
- has at least five Units;
- is not a Manufactured Home;
- does not have Ineligible Characteristics; and
- is not located in an Approved Condominium Project or unapproved phase of a Condominium Project with an approved Legal Phase.

(D) Requirements for Eligible Properties

(1) FHA Insurance Concentration

(a) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(b) Standard

FHA may suspend the issuance of new FHA case numbers for a HECM on a Unit in a Condominium Project when the FHA Insurance Concentration exceeds 10 percent of the total number of Units in the Condominium Project for Condominium Projects with 20 or more Units. For Condominium Projects with less than 20 Units, the number of FHA-insured Mortgages cannot exceed two.

(2) Single-Unit Approval Case Number Assignment

(a) Standard

After submitting the case number assignment to Holds Tracking in FHAC, the Mortgagee must submit required information for case number assignment by email to the FHA Resource Center at: answers@hud.gov. The issuance of an FHA case number for Single-Unit Approval processing is not a Condominium Project Approval of the Unit nor the Condominium Project. All required documents and verifications are to be reviewed and completed as loan level requirements by the Mortgagee.

(b) Required Documentation

The Mortgagee must submit an email to the FHA Resource Center with the information requested in form HUD-9991in the following Sections:

Mortgagee Information, Condominium Project Information, Condominium Association, and Occupancy Requirements by Construction Type, including the total number of Units in the Condominium Project for a case number assignment. Separate emails with the subject line "SUA Holds Tracking: Condominium Project Name" must be submitted for each case number requested.

(3) Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire*

(a) Definitions

Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire,* refers to a set of questions designed to collect pertinent loan, Condominium Project, and Unit information for FHA insurance endorsement.

Condominium Information Fee refers to a fee charged by a Condominium Association when requested to provide information and documentation used to determine eligibility for FHA-insured financing.

(b) Standard

The Mortgagee must submit a completed, signed, and dated form HUD-9991. If a condominium information fee is charged by the Condominium Association to complete form HUD-9991, the condominium information fee may be financed or paid in cash by the Borrower or Mortgagee.

(4) Owner Occupancy Percentage

(a) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(b) Standard

The Mortgagee must determine that the Condominium Project has an Owner Occupancy Percentage of at least 50 percent of the total number of Units.

The Mortgagee must report the Owner Occupancy Percentage in FHAC when the functionality becomes available.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(d) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units are included in the numerator of the calculation:

- any Unit that is occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as their place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

(5) Recorded Documents

(a) Definition

Recorded Documents refer to the Condominium Project's legal, project, and governing documents that are required to operate legally as required by state and local law.

(b) Standard

The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project can be legally operated in the local jurisdiction.

(c) Required Documentation

The Mortgagee must submit evidence that the Recorded Documents have been recorded.

(6) Transfer of Control

(a) Definitions

Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.

Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify, or veto any action of the Condominium Association.

(b) Standard

The Mortgagee must verify Control of the Condominium Association has been transferred to the Unit owners and the Covenants, Conditions, and Restrictions (CC&R) have been recorded.

(c) Required Documentation

The Mortgagee must submit form HUD-9991 and recorded CC&Rs.

(7) Financial Condition

(a) Financial Stability

(i) Definition

Financial Stability refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

(ii) Standard

The Mortgagee must verify the Financial Stability of the Condominium Project and that:

- the Condominium Association maintains separate accounts for operating and reserve funds;
- a reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate of 12 months of Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study; and
- no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

*(iii)*Required Documentation

The Mortgagee must submit form HUD-9991.

(b) Financial Distress Event

(i) Definition

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- sought protection under bankruptcy law;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a Deed-in-Lieu (DIL) of Foreclosure.

(ii) Standard

The Mortgagee must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

*(iii)*Required Documentation

The Mortgagee must submit form HUD-9991.

If applicable, the Mortgagee must submit a dated legal document evidencing Resolution of Financial Distress Event and a signed and dated explanation.

(c) Individual Owner Concentration

(i) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes, but is not limited to:

- an individual serving as the Unit owner's officer, director, or employee; or
- a Unit owner's direct parent company, subsidiary, or any related entity with which the Unit owner shares a common officer or director.

(ii) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. A Related Party may own a Unit, only if the Unit is owner-occupied and meets FHA's principal residency requirements.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991.

(iv) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut Rehab to calculate the Individual Owner Concentration.

(d) Commercial/Nonresidential Financial Independence

(i) Definition

Commercial/Nonresidential Financial Independence refers to the ability of the Residential Space and Commercial/Nonresidential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

(ii) Standard

For projects with Commercial/Nonresidential Space, the Mortgagee must verify there is Commercial/Nonresidential Financial Independence.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991.

For Condominium Projects with Commercial/Nonresidential Space, the Mortgagee must submit:

- a current year budget approved by the board(s);
- a year-to-date income and expense statement dated within 90 Days if the prior year to date actuals are more than 90 Days old;
- an income and expense statement for the previous year's actual year end results; and

- a current balance sheet dated within 90 Days prior to the date of submission.

(8) Insurance Coverage

The Condominium Project where the single Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an Affiliated Condominium Project or Condominium Association, the name of the Affiliated Condominium Project or Condominium Association may be listed as a named insured.

(a) Walls-In (HO-6)

(i) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(ii) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In coverage policy (HO-6) if the master or blanket policy does not include interior Unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and a certificate of insurance or complete copy of the insurance policy.

(b) Hazard Insurance

(i) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences.

(ii) Standard

The Mortgagee must verify that the Condominium Association has a master or blanket hazard insurance policy in place for the entire Condominium Project. The Condominium Association’s master or blanket Hazard Insurance policy must be in an amount to fully cover the insurable

replacement cost of all Units and all insurable Common Elements in the Condominium Project.

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement, selection of the agreed value option, or an amount of coverage to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Condominium Project.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

Hazard Insurance must be maintained over the lifecycle of the HECM.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991, a certificate of insurance or complete copy of the insurance policy, and if applicable, acceptable evidence of the replacement cost value.

(c) Liability Insurance

(i) Definition

Liability Insurance refers to insurance that protects against legal claims.

(ii) Standard

The Mortgagee must verify that the Condominium Association maintains comprehensive Liability Insurance for the entire Condominium Project, including all common areas, elements, public ways, and all other areas that are under its supervision, in the amount of at least $1 million for each occurrence.

Liability Insurance must be maintained over the lifecycle of the HECM.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and a certificate of insurance or complete copy of the insurance policy.

(d) Fidelity Insurance

(i) Definition

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime, or other fraudulent acts conducted by one or more employees.

(ii) Standard

The Mortgagee must verify that for all Condominium Projects with more than 20 Units, the Condominium Association maintains Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

The Mortgagee must verify that the insurance coverage is the greater of either:

- three months of aggregate (12-month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
- the minimum amount required by state law.

For existing policies, an uninsured amount within 3 percent of the above calculation or $10,000, whichever is less, is acceptable.

If the Condominium Project engages a management company, the policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and the certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company.

(e) Flood Insurance

(i) Standard

The Mortgagee must ensure that the Flood Insurance for a Condominium Unit meets the requirements in/under Flood Insurance for an FHA-insured Mortgage.

The Mortgagee must verify that Units in a Condominium Project located in a SFHA meet the Flood Insurance requirements in the Condominium Project Approval section.

(ii) Required Documentation

The Mortgagee must submit form HUD-9991 and the required documentation in the Condominium Project Approval section.

(f) Exception for FHA Insurance Requirements

The Mortgagee must verify that the Unit owners and Condominium Association or HOA comply with FHA insurance coverage requirements.

(i) Detached Condominium Housing Project Eligibility

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance (Walls-In);
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(ii) Common Interest Housing Development Project

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two- to four-units within the project to maintain and carry property insurance for the dwelling, site area, and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Liability, and Flood Insurance for the Structures that contain the attached units and the common areas of the project.

(iii) Required Documentation

The Mortgagee must submit form HUD-9991 and certificates of insurance or complete copies of the insurance policies.

(9) Projects in Coastal Barrier Resources System or Special Flood Hazard Areas

(a) Projects in Coastal Barrier Resources System

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA Single-Unit Approval.

(b) Special Flood Hazard Areas

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project meets the Special Flood Hazard Areas requirements in the Condominium Project Approval section.

(10) Commercial/Nonresidential Space

(a) Definitions

Commercial/Nonresidential Space refers to floor area allocated to:

- retail and commercial square footage (excludes Live/Work Units);
- multilevel parking garage square footage that is separate from multilevel parking garage square footage allocated to residential Unit owners;
- building common areas not reserved for the exclusive use of residential Unit owners; and
- any square footage that is owned by a private individual or entity outside of the Condominium Association.

Residential Space refers to floor area allocated to:

- all Unit square footage;
- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Nonresidential Space.

Total Floor Area refers to all Residential Space and Commercial/Nonresidential Space.

(b) Standard

The Mortgagee must verify that the Condominium Project's Commercial/Nonresidential Space does not exceed 35 percent of the Condominium Project's Total Floor Area.

(c) Required Documentation

The Mortgagee must submit the following documentation:

- form HUD-9991;
- recorded condominium site plans; and
- recorded CC&Rs.

(11) Live/Work Unit

(a) Definitions

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for nonresidential and residential purposes.

A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

(b) Standard

The Mortgagee must verify that the Condominium Project governing documents allow Live/Work arrangements.

The Mortgagee must verify that the individual Live/Work Unit does not contain more than 49 percent Commercial/Nonresidential Space.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

(12) Leasehold Interest

(a) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(b) Standard

The Mortgagee must determine if Condominium Projects with Units or Common Elements owned under a Leasehold Interest are eligible and meet the following requirements:

- The Condominium Association must be the lessee under the lease.
- The lease of the Common Elements provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners.
- The lease provides that the Mortgagee receives notice of any monetary or Non-Monetary Default by the Condominium Association and is given the right to cure any defaults on behalf of the Condominium Association.
- The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
- The Condominium Association must not be in default under any provisions of the lease.
- The lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.
- The Condominium Project must comply with the Title II Leasehold guidance as applicable.

(c) Required Documentation

The Mortgagee must submit the lease and comply with the required documentation in the Leasehold guidance.

(13) Litigation

(a) Definition

Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

(b) Standard

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to Litigation that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

(c) Required Documentation

The Mortgagee must submit form HUD-9991.

iv. Site Condominium

(A) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse-style) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

(B) Standard

The Unit owner must be responsible for all required insurance and maintenance costs associated with the Unit dwelling, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(C) Required Documentation

The Mortgagee must submit the following documentation:

- Condominium Rider;
- appraisal completed on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*, evidencing that all Units satisfy the Site Condominium definition;
- certificate of Hazard Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling; and
- if required under the Flood Insurance requirements in the Condominium Project Approval Section, certificate of Flood Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling.

C. CONDOMINIUM PROJECT APPROVAL

Condominium Project Approval can be issued by FHA staff through the HUD Review and Approval Process (HRAP) or by an FHA-approved Mortgagee through the Direct Endorsement Lender Review and Approval Process (DELRAP). Mortgagees with Unconditional DELRAP Authority are authorized to review condominium documentation, determine Condominium Project eligibility, and certify to compliance with section 203(b) of the National Housing Act and 24 CFR Part 203 of FHA's regulations as part of the Condominium Project Approval process.

1. Definitions (10/15/2019)

Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

Common Elements refer to the Condominium Project's common areas and facilities including underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration.

Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

Infrastructure refers to the Condominium Project's streets, storm water management, water and sewage systems, and utilities, along with the Condominium Project's Common Elements and any similar items, called for in the Condominium Project or Legal Phase.

Condominium Project Approval refers to the process to determine a Condominium Project's compliance with FHA's Condominium Project Approval requirements.

Approved Condominium Project refers to a Condominium Project that meets FHA Condominium Project Approval requirements as determined by review under DELRAP or HRAP.

Condominium Association refers to the organization, regardless of its formal legal name, that consists of homeowners within a Condominium Project for the purpose of managing the financial and common-area assets.

2. Project Eligibility

a. Classifications and Ineligible Characteristics (10/15/2019)

i. Classifications

Condominium classifications eligible for Condominium Project Approval include:

- Existing Construction;
- Complete Condominium Project;
- Conversions:

  - Gut Rehab (completed)
  - Non-Gut Rehab
- Two- to Four-Unit Condominium Project;
- Manufactured Housing; and
- Leasehold Interest.

ii. Ineligible Characteristics

FHA will not approve Condominium Projects with the following characteristics:

- cooperative ownership;
- condominium hotel or condotel;
- mandatory rental pooling agreements that require Unit owners to either rent their Units or give a management firm control over the occupancy of the Units;
- timeshare or segmented ownership projects;
- multi-dwelling condominiums (more than one dwelling per Condominium Unit);
- houseboat project;
- continuing care facility;
- Coastal Barrier Resources System location; or
- subject to adverse determination for significant issues as identified by FHA.

b. Phasing (10/15/2019)

i. Definition

Phasing refers to Condominium Projects that are legally declared in separate stages by amending and recording the governing documents.

Legal Phases refer to specific phases of a Condominium Project that allow additions to the Condominium Project and are defined by state authority.

ii. Standard

Condominium Projects may be approved in stages as Legal Phases are completed; however, all completed Legal Phases must be evaluated.

Each Legal Phase must be complete as demonstrated by the Certificate of Occupancy (CO) or its equivalent prior to submission of a Legal Phase.

Legal Phases may be submitted for New Construction and Conversion (both Gut and Non-Gut Rehabilitation) Condominium Projects.

The submitted Legal Phases must be independently sustainable without future planned Legal Phases, as demonstrated by the budget and financial documentation, such that the submitted Legal Phases of the Condominium Project will not be jeopardized by the failure to complete additional Legal Phases.

(A) Vertical Buildings

For vertical buildings, legal Phasing is acceptable if:

- all Units in the phase are built out; and
- at least a temporary CO or its equivalent has been obtained for the Units.

(B) Detached and Semi-detached Buildings

For a detached or semi-detached development, Phasing is acceptable if:

- all Units in the phase are built out; and
- at least a temporary CO or its equivalent has been obtained for the Units.

(C) Required Documentation

Form HUD-9992, *FHA Condominium Project Approval Questionnaire,* must be submitted along with:

- the CO or its equivalent for each Unit in the Legal Phase; or
- a temporary CO or its equivalent.

c. General Condominium Project Approval Requirements (08/19/2024)

These general requirements apply to all construction types, including Existing Construction Condominium Projects. Additional or different standards may apply for certain construction types.

To be eligible for Condominium Project Approval, the Condominium Project must:

- be primarily residential in nature and not be intended for Rental for Transient or Hotel Purposes;
- consist only of one-family Dwelling Units;
- be in full compliance with all applicable federal, state, and local laws with respect to zoning, fair housing, and accessibility;
- be complete and ready for occupancy; and
- be reviewed and approved by the local jurisdiction.

In addition, the Condominium Project must also meet the following requirements in this section.

i. Form HUD-9992, *FHA Condominium Project Approval Questionnaire*

(A) Definition

Form HUD-9992, *FHA Condominium Project Approval Questionnaire,* refers to a set of questions designed to collect pertinent Condominium Project and Unit information for Condominium Project Approval and FHA insurance endorsement.

(B) Standard

Form HUD-9992 must be completed, signed, and dated by an eligible submission source or a DELRAP Mortgagee.

ii. Recorded Documents

(A) Definition

Recorded Documents refer to the Condominium Project's legal, project, and governing documents that are required to operate legally as required by state and local law.

(B) Standard

The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project meets the legal and operational requirements in the local jurisdiction.

(C) Required Documentation

Copies of Recorded Documents must be submitted.

iii. FHA Insurance Concentration

(A) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(B) Standard

FHA may suspend project eligibility of Condominium Projects where the FHA Insurance Concentration is greater than 50 percent of the total number of Units in the Condominium Project.

iv. Owner Occupancy Percentage

(A) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(B) Standard

(1) Existing Construction

The acceptable level of Owner Occupancy Percentage is at least 50 percent of the total number of Units.

(2) New Construction - Complete Condominium Projects

For Complete Condominium Projects and Gut Rehab conversions, the acceptable level of Owner Occupancy Percentage is at least 30 percent of the total number of declared Units in the Condominium Project.

(C) Exception for Existing Construction

Existing Construction Condominium Projects that are greater than 12 months old, with an Owner Occupancy Percentage of at least 35 percent and less than 50 percent are eligible for approval with the following conditions:

- applications must be submitted for processing and review under the HRAP option; and
- no more than 10 percent of the total Units are Units in Arrears (does not include late fees or other administrative expenses).

(D) Required Documentation

Form HUD-9992 must be submitted.

(E) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units in the numerator of the calculation:

- any Unit that is occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as their place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as their place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

v. Transfer of Control

(A) Definition

Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.

Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify, or veto any action of the Condominium Association.

(B) Standard

The legal documents must:

- require Transfer of Control from the developer/builder to the Unit owners;
- specify the conditions for Transfer of Control;
- indicate the number of Units in the Condominium Project; and
- be recorded, as applicable, in the CC&R, declaration, master deed, condominium plat, and/or condominium site plans.

The developer/builder must relinquish control to the Condominium Association no later than the latest of the following events:

- 120 Days after the date 75 percent of the Units in the Condominium Project have been conveyed to Unit owners; or
- three years after completion of the Condominium Project as evidenced by the first conveyance to a Unit owner.

Any time frame regarding Transfer of Control established under state or local condominium laws takes precedence.

Any contracts entered into by the builder/developer prior to the Transfer of Control and subsequently assigned to the Condominium Association, must give the right to Condominium Association to terminate the contracts with no more than 90 Days' notice.

(C) Required Documentation

The following documentation must be submitted for Transfer of Control:

- form HUD-9992;
- recorded CC&Rs, declaration, and/or master deed, and all amendments;

- signed and adopted bylaws; and
- articles of incorporation, articles of association, Declaration of Trust, or other governing documents, if applicable and in accordance with state law.

vi. Financial Stability and Controls

(A) Definitions

Financial Stability refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

Financial Controls refer to the financial policies and procedures that a Condominium Association has in place to protect its funds from fraud and mismanagement.

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- sought protection under bankruptcy laws;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a DIL of Foreclosure.

Resolution of Financial Distress Event refers to:

- bankruptcy discharge;
- termination of receivership;
- issuance of foreclosure judgment; or
- execution of DIL of Foreclosure.

(B) Standard

(1) All Projects

To demonstrate Financial Stability, FHA requires Condominium Projects to have financial documents that itemize and address income and expenditures that are sufficient and pertinent to the Condominium Project including:

- an operating income that demonstrates a stable income stream over the past two years with decreases of no higher than 15 percent;
- ability to cover the cost of insurance coverage and deductibles;
- a reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate of 12 months of Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study;
- evidence that the budget provides for the periodic funding to maintain the reserve account balance of at least 10 percent of the aggregate of 12 months of Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study;

- evidence that no more than 15 percent of the total Units are Units in Arrears (does not include late fees or other administrative expenses); and
- financial records that are consistent with the application package, including special assessments, loans, or other financial variations.

If a reserve study is required to justify a reserve account funded less than 10 percent, it must:

- be 36 months old or less;
- include a site visit;
- demonstrate that the Condominium Project has adequate funded reserves that provide financial protection for the Condominium Project equivalent to the reserve requirements;
- demonstrate that the Condominium Project's funded reserves meet or exceed the recommendations included in the reserve study; and
- be prepared by an independent third party that has demonstrated knowledge of and experience in completing reserve studies.

The Condominium Project demonstrates Financial Controls by:

- maintaining separate accounts for operating and reserve funds;
- requiring the Condominium Association's management company to maintain separate records and bank accounts for the Condominium Association; and
- restricting the management company from drawing checks on, or transferring funds from, the reserve account of the Condominium Association without approval from the Condominium Association.

(2) Financial Distress

A Condominium Project or builder/developer that has completed a Resolution of Financial Distress Event within 12 months prior to the application date is not eligible for initial approval or recertification. If the Resolution of Financial Distress Event was completed more than 12 months but less than 36 months, the application package must be submitted through HRAP for evaluation.

If there has been a Resolution of Financial Distress Event within the last 36 months, the Condominium Project or builder/developer must demonstrate the cause has been resolved and a Financial Distress Event is unlikely to recur.

(3) Individual Owner Concentration

(a) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes, but is not limited to:

- an individual serving as the Unit owners' officer, director, or employee; or
- a Unit owner's direct parent company, subsidiary, or any related entity with which the Unit owner shares a common officer or director.

(b) Standard

For Condominium Projects with 20 or more Units, the Individual Owner Concentration must be 10 percent or less.

For Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

Exception

Affordable housing Units owned by an eligible governmental or nonprofit program defined in 24 CFR § 203.41 are not subject to the Individual Owner Concentration requirements. The affordable housing Units must be identified by recorded legal documents.

(c) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut Rehab must be used to calculate the Individual Owner Concentration.

(d) Required Documentation

Form HUD-9992 and if applicable, the recorded legal documents identifying the affordable housing Units must be submitted.

(4) Phasing

For Condominium Projects that are subject to additional Phasing, the Condominium Project must contain arrangements that guarantee the future completion of all facilities and Common Elements.

The Condominium Project must demonstrate positive cash flow from the revenue and expenditures of the completed Legal Phases and Common Elements.

(5) Projects with Commercial/Nonresidential Space

(a) Definition

Commercial/Nonresidential Financial Independence refers to the ability of the Residential Space and Commercial/Nonresidential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

(b) Standard

For projects with Commercial/Nonresidential Space, the Mortgagee must verify there is Commercial/Nonresidential Financial Independence.

(C) Required Documentation

The following documentation must be submitted:

- form HUD-9992;
- current year's budget approved by the Condominium Association board;
- year-to-date income and expense statement dated within 90 Days if the prior year-to-date actuals are more than 90 Days old;
- income and expense statement(s) for the previous two years actual year end results;
- current balance sheet dated within 90 Days prior to the date of submission;
- if applicable, documentation supporting any loans or special assessments, including information regarding the purpose, term, payment status, total amount of the assessment, amount of the assessment per Unit and overall impact on marketability and value of the Property;
- if applicable, a dated legal document evidencing Resolution of Financial Distress Event and a letter of explanation describing the cause of the event and measures taken by the Condominium Association to prevent a future Financial Distress Event; and
- evidence of financial arrangements that guarantee the future completion of all facilities and Common Elements, as applicable.

vii. Insurance Coverage

The Condominium Project must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an affiliated Condominium Project or Condominium Association, the name of the affiliated Condominium Project or Condominium Association may be listed as a named insured.

(A) Hazard Insurance

(1) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences.

(2) Standard

The Condominium Association must have a master or blanket Hazard Insurance policy in place for the entire Condominium Project. The Condominium Association's master or blanket Hazard Insurance policy must be in an amount to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Approved Condominium Project.

Any policy with a coinsurance clause must include an agreed amount endorsement, selection of the agreed value option, or an amount of coverage to fully cover the insurable replacement cost of all Units and all insurable Common Elements in the Approved Condominium Project.

Any pooled insurance policy must satisfy the insurance coverage standard for each Condominium Project insured under the policy.

(3) Required Documentation

The following documentation must be submitted:

- form HUD-9992;
- certificate of insurance or a complete copy of the insurance policy; and
- if applicable, acceptable evidence of the replacement cost value.

(B) Liability Insurance

(1) Definition

Liability Insurance refers to insurance that protects against legal claims.

(2) Standard

The Condominium Association must maintain comprehensive Liability Insurance for the entire Condominium Project, including all Common Elements and areas, public ways, and other areas that are under its supervision, in the amount of at least $1 million for any single occurrence.

(3) Required Documentation

The following documentation must be submitted:

- form HUD-9992; and
- certificate of insurance or a complete copy of the insurance policy.

(C) Fidelity Insurance

(1) Definition

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime, or other fraudulent acts conducted by one or more employees.

(2) Standard

For all Condominium Projects with more than 20 Units, the Condominium Association must maintain Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

This insurance coverage must be the greater of either:

- three months of aggregate (12-month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
- the minimum amount required by state law.

For existing policies, an uninsured amount within 3 percent of the above calculation or $10,000, whichever is less, is acceptable.

If the Condominium Project engages a management company, it must have a policy that covers both or separate policies. The policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

(3) Required Documentation

The following documentation must be submitted:

- form HUD-9992; and
- certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company.

(D) Flood Insurance (Existing Construction)

(1) Standard

Flood Insurance for Condominiums must meet the requirements in Flood Insurance.

The Condominium Association must have Flood Insurance in place for property improvements in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including "A" or "V" zones, which are determined by the Federal Emergency Management Agency (FEMA).

The Condominium Association must have Flood Insurance for all Condominium Units in buildings that are located in an SFHA.

The Condominium Project must be located in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Condominium Association obtains NFIP coverage. Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per Condominium Unit multiplied by the number of Condominium Units, whichever is less.

(2) Required Documentation

The following documentation must be submitted:

- form HUD-9992;
- FEMA flood map with the Condominium Project location clearly marked;
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152); and
- if applicable, the certificate of insurance or a complete copy of the Flood Insurance policy.

(E) Exception for FHA Insurance Requirements

This exception applies to Manufactured Home Condominium Projects, Detached Condominium Housing Projects, and Common Interest Housing Developments unable to satisfy the current insurance requirements.

(1) Standard

The Unit owners and Condominium Association or HOA of the Condominium Project must comply with FHA insurance coverage requirements.

(a) Manufactured Housing Condominium Project

MHCPs are eligible for this exception if the:

- governing documents designate the insurance coverage maintained by the Unit owners and the Condominium Association; and
- MHCP is unable to satisfy FHA insurance requirements.

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area, and any Personal Property contained within, the MHCP is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided that the governing documents require the Unit owners to maintain individual Flood Insurance if the Unit has been identified as located in a Special Flood Hazard Area (SFHA).

(b) Detached Condominium Housing Project

If the governing documents require the Unit owners to maintain all applicable property insurance coverage for the dwelling, site area and any Personal Property contained within, the DCHP Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must carry master or blanket insurance for Structures/improvements that are considered common areas of the project outside the footprint of the individual site.

(c) Common Interest Housing Development

If the governing documents require the Unit owners of the detached Single Family homes, Site Condominiums, duplex, or two- to-four units within the project to maintain and carry property insurance for the dwelling, site area and any Personal Property contained therein, the Condominium Association or HOA is not required to maintain:

- a blanket Hazard Insurance policy, provided the governing documents require the Unit owners to maintain individual Hazard Insurance;
- a Liability Insurance policy, provided the governing documents require the Unit owners to maintain individual Liability Insurance; and
- a Flood Insurance policy, provided the governing documents require the Unit owners to maintain individual Flood Insurance.

The Condominium Association or HOA must maintain and carry master/blanket Hazard, Flood, and Liability Insurance for the Structures that contain the attached units and the common areas of the project.

(2) Required Documentation

The Condominium Project must have form HUD-9992 and certificates of insurance or complete copies of the insurance policies from the Unit owners and Condominium Association.

viii. Projects in the Coastal Barrier Resources System and Special Flood Hazard Areas

(A) All Projects in the Coastal Barrier Resources System

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA project approval.

(B) Special Flood Hazard Areas

(1) Complete Condominium Project

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project:

- obtains a final LOMA or final LOMR from FEMA that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152). The Elevation Certificate must document that the lowest floor, including the basement of the residential building(s), and all related improvements/equipment essential to the value of the Property is built at or above the 100-year flood elevation in compliance with the NFIP criteria, and Flood Insurance is obtained.

(2) Manufactured Housing

If any portion of the Structures or equipment essential to the value of the Manufactured Housing Condominium Project for both new and existing Manufactured Homes is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the following is submitted:

- a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) showing that the finished grade beneath the Manufactured Home is at or

above the 100-year return frequency flood elevation, and Flood Insurance is obtained.

(3) Required Documentation

The following documentation must be submitted:

- if applicable, FEMA LOMA;
- if applicable, FEMA LOMR; or
- if applicable, FEMA NFIP Elevation Certificate FEMA Form FF-206-FY-22-152.

ix. Commercial/Nonresidential Space

(A) Definitions

Commercial/Nonresidential Space refers to floor area allocated to:

- retail and commercial square footage (excludes Live/Work Units);
- multilevel parking garage square footage that is separate from multilevel parking garage square footage allocated to residential Unit owners;
- building common areas not reserved for the exclusive use of residential Unit owners; and
- any square footage that is owned by a private individual or entity outside of the Condominium Association.

Residential Space refers to floor area allocated to:

- all Unit square footage;
- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Nonresidential Space.

Total Floor Area refers to all Residential Space and Commercial/Nonresidential Space.

(B) Standard

The Condominium Project's Commercial/Nonresidential Space must not exceed 35 percent of the Condominium Project's Total Floor Area.

(C) Exception

The Condominium Project's Commercial/Nonresidential Space may exceed 35 percent of the Condominium Project's Total Floor Area up to a maximum of 49 percent if it is determined that the residential character of the Condominium Project is maintained. To determine that the residential character is maintained, the economy for

the locality of the Condominium Project or specific to the Condominium Project and the total number of residential Units in the Condominium Project must be considered.

The following documentation must be reviewed and analyzed by the Mortgagee under DELRAP to support its decision or submitted for HRAP:

- an opinion from a certified residential appraiser that addresses market acceptance of the Condominium Project as residential in character;
- a current market study performed by an independent third party that addresses factors relating to the economy for the locality of the Condominium Project or specific to the Condominium Project; and
- the total number of residential Units in the Condominium Project.

(D) Required Documentation

The following documentation must be submitted for Commercial/Nonresidential Space:

- form HUD-9992;
- budget and financials;
- recorded condominium site plans;
- CC&Rs; or
- if applicable, exception documentation.

x. Live/Work Units

(A) Definitions

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for nonresidential and residential purposes.

A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

(B) Standard

The Condominium Project's governing documents must allow Live/Work arrangements.

All individual Live/Work Units must not contain more than 49 percent Commercial/Nonresidential Space.

(C) Required Documentation

The following documentation must be submitted:

- form HUD-9992; and
- recorded CC&Rs.

xi. Leasehold Interest

(A) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(B) Standard

Condominium Projects with Common Elements owned under a Leasehold Interest are eligible if the Condominium Project meets the following requirements:

- the Condominium Association must be the lessee under the lease;
- the lease of the Common Elements provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners;
- the lease provides that the Mortgagees receive notice of any monetary or Non-Monetary Default by the Condominium Association and be given the right to cure any defaults on behalf of the Condominium Association;
- the lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements;
- the Condominium Association must not be in default under any provisions of the lease; and
- the lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of the lease rents.

(C) Required Documentation

The lease must be submitted.

xii. Additional Requirements

(A) Management Agreement

(1) Definition

A Management Agreement refers to an agreement between a third-party company and the Condominium Association to manage the Condominium Project.

(2) Standard

If the Condominium Association employs the services of a management company, the Management Agreement must give the Condominium Association the right to terminate the Management Agreement with no more than 90 Days' notice.

(3) Required Documentation

The current, executed Management Agreement must be submitted.

(B) Existing Contracts

(1) Definition

Existing Contracts refer to contracts executed prior to the Transfer of Control to the Condominium Association.

(2) Standard

Any contracts entered into by the builder/developer prior to the Transfer of Control and subsequently assigned to the Condominium Association, must give the Condominium Association the right to terminate the contracts with no more than 90 Days' notice. This does not apply to ground leases or contracts in which the Condominium Association or Unit owners are granted a possessory or ownership interest in real estate.

(3) Required Documentation

The following documents must be submitted:

- form HUD-9992; and
- copies of contracts entered into by the builder/developer prior to the Transfer of Control.

(C) Recreational Leases/Easement

(1) Definitions

Recreational Leases refer to separate ownership of recreational facilities at a Condominium Project with the owner leasing its use to the Unit owners.

An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

(2) Standard

Condominium Projects with Recreational Leases/Easements are acceptable under the following circumstances:

- if the Recreational Lease or Easement holder is a nonprofit entity under the Control of the Condominium Association; or
- if each Unit owner has the right to cancel the membership with no more than 90 Days' notice and without penalty.

(3) Required Documentation

The following documents must be submitted:

- form HUD-9992; and
- Recreational Leases, Easements, or contracts for use of recreational facilities.

(D) Litigation

(1) Definition

Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

(2) Standard

The Condominium Project or Condominium Association must not be subject to pending Litigation in which the project sponsor is named as a party that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.

The Condominium Project or Condominium Association must not be subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

(3) Required Documentation

The following documents must be submitted:

- form HUD-9992;
- a signed and dated explanation from the Condominium Association, management company, or an attorney representing the Condominium Association that includes at least the following information:
  - reason(s) for the Litigation;
  - risk of the Litigation;
  - anticipated settlement/judgment date, if any;
  - sufficiency of insurance coverage to pay out a settlement/judgment, if applicable; and
  - impact of the Litigation on the future solvency of the Condominium Association; and
- the following documents, which must be attached to the signed and dated explanation, if applicable:
  - complaint filed with the court, arbitrator, or mediator; and

- all engineering or expert reports commissioned by the Condominium Association or their attorneys, which must include evidence of the safety, structural soundness, habitability, or functional use of the Condominium Project and evidence of the cost of the repair of any construction defect and status of the repairs.

(E) Legal Restrictions on Conveyance (Free Assumability)

(1) Definitions

Legal restrictions on conveyance have the same meaning as defined in 24 CFR § 203.41.

(2) Standard

The Condominium Project must not contain Units encumbered by restrictions on conveyance in violation of the requirements contained in 24 CFR § 203.41, subject to certain enumerated exceptions provided below. The Condominium Project's organizing documents may contain one or more of the following provisions:

- All leases must be in writing and subject to the declaration and bylaws of the Condominium Project.
- The Condominium Association may request and receive a copy of the sublease or rental agreement.
- The Condominium Association may request the name(s) of all tenants including the tenants' Family Members who will occupy the Unit.
- Unit owners are prohibited from leasing their Units for an initial term of less than 30 Days.
- The Condominium Association may establish a maximum allowable lease term.
- The Condominium Association may establish a maximum number of rental Units within the project; however, the percentage of rental Units may not exceed the current FHA Condominium Project owner-occupancy requirement.
- The Condominium Association may not require that a prospective tenant be approved by the Condominium Association and/or its agent(s), including but not limited to meeting creditworthiness standards.
- The Condominium Association may have the right of first refusal to purchase or lease any Unit only if it does not violate discriminatory conduct prohibitions under the Fair Housing Act regulations at 24 CFR Part 100. It is the responsibility of the submitter to address any questions regarding eligibility issues with their attorney or the appropriate agency.

(a) Exceptions for Affordable Housing Units

Legal restrictions on conveyance for eligible government or nonprofit affordable housing programs are acceptable if:

- the government or eligible nonprofit program restriction meets the exceptions defined in 24 CFR § 203.41(c)–(d); and
- the affordable housing units are identified by recorded legal documents, specifying the Units that are covered under the program.

In accordance with 24 CFR § 203.41(d)(1)(ii), FHA considers a reasonable share of appreciation to be at least 50 percent. HUD does not object to affordable housing programs whereby the homeowner's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation. If the program sets a maximum sales price restriction, the Borrower must be permitted to retain 100 percent of the appreciation.

(b) Exceptions for Private Transfer Fees

Notwithstanding the policy of free assumability with no exceptions contained in 24 CFR § 203.41, properties with private transfer fee covenants are acceptable provided such covenants are Excepted Transfer Fee Covenants as provided in 12 CFR § 1228.

(3) Required Documentation

The following documents must be submitted:

- form HUD-9992; and
- recorded legal documents.

d. Construction Types (02/16/2021)

i. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties (or Condominium Projects) Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the stage from the first placement of permanent material to 100 percent completion with no CO or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

Complete Condominium Project refers to a Condominium Project consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project, and not subject to further rehabilitation or construction.

Complete Legal Phase refers to a Legal Phase in which all Units are built out and all Units have a CO or the equivalent.

(B) Standard

The Condominium Project, or Legal Phase, as applicable, must be either a Complete Condominium Project or a Complete Legal Phase.

Form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, must be signed and dated. The completed form must show any issues noted by the builder/developer and proposed mitigation plans.

(C) New Construction Additional Requirements

(1) Financial Condition

If no Units have closed in the Condominium Project, a proposed budget is required.

All Financial Condition – Required Documentation is required if any Unit has closed.

Financial condition documentation for Condominium Projects operating less than one year must cover the operating period since the sale of the first Unit.

(2) Minimum Insurance Coverage

If no Units have closed in the Condominium Project, a builder’s policy is acceptable in lieu of Hazard Insurance, Liability Insurance, and Fidelity Insurance.

All minimum Insurance Coverage is required if any Unit has closed.

(D) Required Documentation

The following documents must be submitted:

- form HUD-92541, signed and dated;
- additional documentation demonstrating mitigation of any issues noted in form HUD-92541 including the State Licensed engineers’ (soil and structural) reports, designs, and/or certifications to ensure the structural soundness of the improvements and the health and safety of the occupants;

- a copy of the builder's policy or the required documentation in Insurance Coverage;
- a CO or its equivalent; and
- photographs of each building.

ii. Newly Converted

A Condominium Project is considered newly converted if the Date of Conversion is within 24 months of the time of Condominium Project submission.

Date of Conversion refers to the date that the legal documents were recorded.

Newly converted Condominium Projects can only be processed under the HRAP option.

(A) Gut Rehabilitation Conversion

(1) Definition

Gut Rehabilitation (Gut Rehab) refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

(2) Standard

Gut Rehabs must meet the general FHA Condominium Project approval requirements and New Construction standards.

(3) Required Documentation

The following documents must be submitted:

- form HUD-9992;
- an engineering or architectural inspection, dated within 12 months, evidencing all rehabilitation work/repairs have been completed; and
- a CO or its equivalent.

(B) Non-Gut Rehabilitation

(1) Definition

Non-Gut Rehabilitation (Non-Gut Rehab) refers to rehabilitation work that is not structural and is limited to minor property repairs and improvements.

(2) Standards

Non-Gut Rehabs must meet the standards for Existing Construction.

A reserve study must be 36 months old or less and have been prepared by an independent third party that has demonstrated knowledge of and experience in completing reserve studies. The reserve study must include analysis of the Non-Gut Rehab.

All Non-Gut Rehab work/repairs must be completed.

(3) Required Documentation

The following documents must be submitted:

- form HUD-9992;
- reserve study; and
- evidence that all rehabilitation work/repairs have been completed.

e. Two- to Four-Unit Condominium Project (10/15/2019)

i. Definition

A Two- to Four-Unit Condominium Project refers to a Condominium Project that comprises of at least two, but no more than four, one-family dwelling Units that are each separately owned with separate legal descriptions.

ii. Standard

All general FHA Condominium Project Approval requirements are applicable except:

- if state law does not require the creation of an annual budget or annual financial statements, a signed and recorded memorandum of understanding may be provided in lieu of the financial documents. The memorandum of understanding must define the individual Unit owner's responsibilities for maintenance/repair/replacement of common areas including sidewalks, driveways, and common walls (includes side by side or vertical type Units) and must provide for a procedure for splitting any shared maintenance costs;
- the project must have an Owner Occupancy Percentage of 75 percent owner-occupied; and
- no Units in Arrears.

iii. Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the Two-to Four Unit Condominium Project requirements;
- annual budget, financial statements or memorandum of understanding if applicable; and
- documented evidence that each Unit is separately owned with a separate legal description.

f. Manufactured Home Condominium Projects (10/15/2019)

i. Definition

A Manufactured Home Condominium Project (MHCP) refers to a Condominium Project that consists of two or more Manufactured Homes.

ii. Standard

To be eligible, MHCPs must:

- be processed under the HRAP option; and
- comply with the general FHA Condominium Project Approval requirements.

iii. Required Documentation

Form HUD-9992 must be submitted for MHCPs.

3. Project Approval Submission

To be eligible for Condominium Project Approval, the application must establish that the Condominium Project meets the requirements listed in the Project Eligibility section and complies with state and local law.

a. Condominium Project Approval (10/15/2019)

There are three types of review processes:

- Full Review;
- Recertification Review; and
- Phasing Review.

i. Definitions

Full Review refers to the verification and analysis of all required Condominium Project Approval documentation.

Recertification Review refers to the verification and analysis of updated Condominium Project Approval documentation.

Phasing Review refers to the review of an additional Legal Phase of a previously Approved Condominium Project.

ii. Standard

The application must indicate the review type as a Full, Recertification or Phasing Review.

(A) Full Review

Full Review is required for a Condominium Project that has never been approved by FHA, or that has been previously approved, but the Condominium Project Approval has been expired for more than six months.

All required documentation must be submitted as specified in Condominium Project Approval.

(B) Recertification Review

Recertification Review is performed no earlier than six months prior to the Approved Condominium Project expiration date or no later than six months after the Approved Condominium Project expiration date.

If not submitted within the stated time frames, the Condominium Project is not eligible for recertification but must re-apply for Full Review.

All required documentation must be submitted as specified in Condominium Project Approval, except the following documents:

- recorded CC&Rs, declaration, and/or master deed, and all amendments;
- recorded plat map or condominium site plans;
- signed and adopted bylaws; and
- articles of incorporation, articles of association, Declaration of Trust, or other governing documents, if applicable and as required by state law.

If amendments have been made to the foregoing documents, they must be submitted.

(C) Phasing

All required documentation must be submitted as specified in Phasing.

b. HUD Review and Approval Process (11/10/2026)

i. Definition

HUD Review and Approval Process (HRAP) refers to the submission of project applications to FHA for approval.

ii. Standard

HRAP may be used for Full Review, Recertification Review, or Phasing Review. HRAP must be used for newly converted Condominium Projects, MHCPs or any Condominium Projects that have completed a Resolution of Financial Distress Event within the past 36 months.

iii. Eligible Submission Sources

Requests for Condominium Project approval must be submitted to FHA by one of the following:

- Mortgagee;
- builder;
- developer;
- Condominium Association;
- management company;
- project consultant; or
- attorney acting as an agent for the developer/builder, Condominium Association or management company.

FHA will not pay for any fees associated with the Condominium Project Approval process.

iv. Submission Process

The application package must be submitted to FHA as a single Portable Document Format (PDF) file by email to the FHA Resource Center at answers@hud.gov or via the HUD FHA Self-Service Portal. Emails must be broken into 25 MB or less. Multiple emails may be sent and subject lines should include the name of the project. The HUD FHA Self-Service Portal does not have file size limitations. Incomplete packages will not be processed.

All application packages must be submitted in English. If the original document was drafted in a language other than English, the original may be submitted accompanied by an English translation.

The Condominium Project Approval application must be arranged in the stacking order as presented in the chart below.

Condominium Project Approval Stacking Order	
#	**Documentation**
1	Cover Letter
2	form HUD-9992, *FHA Condominium Project Approval Questionnaire*
3	Legal Documents
4	Financial Documents
5	Contracts
6	Insurance
7	Flood Insurance and Related Documentation
8	Special Flood Hazard Area
9	Commercial/Nonresidential
10	Live/Work
11	Litigation
12	Other Required Documents

c. Direct Endorsement Lender Review and Approval Process (10/15/2019)

i. Definition

Direct Endorsement Lender Review and Approval Process (DELRAP) refers to the review of a Condominium Project by a Mortgagee that has been granted DELRAP authority.

ii. Standard

DELRAP may be used for the Full Review, Recertification Review, or Phasing Review. The Recertification Review or Phasing Review must be completed by the same Mortgagee that previously approved the Condominium Project. DELRAP may not be used for MHCPs, newly converted Condominium Projects or any project that has completed a Resolution of Financial Distress Event within the past 36 months.

If the DELRAP review indicates that the Condominium Project is ineligible, the Mortgagee must complete the review and enter the denial decision and data into FHAC.

If the Mortgagee starts a review for a Condominium Project, the Mortgagee must complete review.

A Mortgagee with DELRAP authority may submit a Condominium Project for approval under HRAP.

iii. Submission Process

FHAC is the system used to record, list and track all data for Condominium Projects that have been processed. FHAC is used for data entry, processing and reporting.

Mortgagees must use FHAC to:

- determine the existing approval status of a Condominium Project;
- enter the Condominium Project information;
- assign the approval status after the Condominium Project has been reviewed; and
- upload required Condominium Project documents in a PDF.

The Mortgagee must retain all documentation related to the Condominium Project's DELRAP review for a period of seven years and must provide the Condominium Project information and documentation to HUD/FHA upon request.

Mortgagees with Conditional DELRAP Authority must also follow the guidance in Conditional DELRAP Authority.

d. Reconsideration of Rejected or Withdrawn Condominium Projects (10/15/2019)

If the Condominium Project was rejected or withdrawn under HRAP within the previous 12 months, FHA will reconsider the Condominium Project upon submission of corrected or updated documentation.

If the Condominium Project was rejected or withdrawn more than 12 months ago, a Full Review is required under HRAP.

If the Condominium Project was rejected under DELRAP, a Full Review is required under HRAP.

If the Condominium Project was subject to adverse determination for significant issues as identified by FHA, a Full Review is required under HRAP.

D. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES

The appraisal process provides the Mortgagee with necessary information to determine if a property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA-insured Mortgage. Mortgagees bear primary responsibility for determining eligibility and the sufficiency of collateral; however, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.

Property refers to the real estate entity that will serve as adequate security for a specific FHA-insured Mortgage.

The requirements in this section of the *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) contain the Property Acceptability Criteria for FHA mortgage insurance, which include Minimum Property Requirements (MPR) and Minimum Property Standards (MPS), and include by reference, associated rules and regulations. The criteria apply to residential Properties containing one- to four-family housing units, individual Condominium Units, and Manufactured Housing units, and related property improvements and the sites on which they are located, as well as the immediate environment for the dwelling, including streets and other services or facilities associated with the site. Manufactured Housing Properties have additional requirements contained in the Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages section. This section also provides requirements for Appraisers in establishing a credible appraised value for a Property that is to serve as security for an FHA-insured Mortgage.

1. Commencement of the Appraisal

a. Information Required before Commencement of Appraisal (04/10/2025)

The Appraiser must obtain all of the following from the Mortgagee before beginning an appraisal:

- a complete copy of the executed sales contract for the subject, if a purchase transaction;
- the land lease, if applicable (see Leasehold Interest);
- surveys or legal descriptions, if available;
- any other property-related legal documents contained in the loan file; and
- a point of contact and contact information for the Mortgagee so that the Appraiser can communicate any noncompliance issues.

The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed pursuant to FHA guidelines.

When using an appraisal ordered originally for conventional lending or government-guaranteed loan purposes before the case number assignment date:

- The appraisal must be in full compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), which requires that this be classified as a new assignment. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.
- If the Appraiser determines that the scope of work is met with regard to FHA policy including MPR, MPS, and USPAP compliance, and further determines that a reinspection of the Property is not necessary, the effective date of the appraisal may be the date of the original inspection.
- If an FHA-compliant inspection is required, the date of the new inspection will become the effective date of the new appraisal.

b. Additional Information Required before Commencement of an Appraisal on New Construction (09/14/2015)

The Appraiser must obtain, from the Mortgagee, a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, dated no more than 30 Days prior to the date of the appraisal order and documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished.

c. Additional Information Required before Commencement of an Appraisal on a Property with an Exception from the Lead-Based Paint Poisoning Prevention Act (HECM Only) (04/29/2024)

A Property's ability to serve as collateral for the HECM program may qualify for an exception from the remediation of defective lead-based paint surfaces. To qualify for the exception under the Lead-Based Paint Poisoning Prevention Act (LPPPA), as amended by the Residential Lead-Based Paint Hazard Reduction Act of 1992, the Mortgagee must obtain the Borrower's certification that the Property qualifies as housing for the elderly and that no child under six years of age resides, or is expected to reside, in the home.

When performing an appraisal for a Property that meets the LPPPA exception requirements:

- the Appraiser must receive from the Mortgagee a copy of the Borrower certification that the Property qualifies for the exception;
- the repair of defective interior and exterior lead-based paint surfaces is not required to meet MPR and the appraisal report must reflect the impact of the Property's defective lead-based paint surfaces; and
- the appraisal report must prominently include the statement: "The mortgagee has identified that they have obtained borrower certification that this property qualifies for the exception from mitigating lead-based paint hazards under the Lead-Based Paint Poisoning Prevention Act."

2. General Appraiser Requirements (03/19/2025)

The Appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of Property used as security for FHA-insured Mortgages. The Appraiser must observe, analyze, and report whether the Property meets HUD's Property Acceptability Criteria, including Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

MPR refers to general requirements that all homes insured by FHA be safe, sound, and secure.

MPS refers to regulatory requirements relating to the safety, soundness, and security of New Construction.

Every Property must be safe, sound, and secure so that the Mortgagee can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with HUD's MPR and MPS, or they must clearly state when no deficiencies with HUD's Property Acceptability Criteria have been observed or are known.

When performing an appraisal, the Appraiser must review and analyze all the documents under the Information Required before Commencement of Appraisal. For new construction assignments, the Appraiser must also review and analyze all the documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built or, if now Under Construction, what will be built when finished.

The Appraiser must report the results of their analysis in the appraisal report.

In a purchase transaction, if the seller is not the owner of record, the Appraiser must include an explanation in the appraisal report.

3. Acceptable Reporting Forms and Protocols (04/10/2025)

FHA only accepts appraisals in the Mortgage Industry Standards Maintenance Organization (MISMO) 2.6 with embedded PDF format, as created directly by the appraiser (first generation). FHA does not accept private or proprietary data formats or appraisal reports that have been manipulated or "translated" by anyone or any process.

Forms to be used in the completion of an FHA appraisal are as follows:

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property (One-Unit Property or a One-Unit Property with a Single Accessory Dwelling Unit (ADU))	Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*
Single Family Comparable Market Rent Analysis	Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*

Property/Assignment Type	Acceptable Reporting Form
Single Unit Condominium	Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*
Manufactured (HUD Code) Housing (One-Unit Property or a One-Unit Property with a Single ADU)	Fannie Mae Form 1004C/Freddie Mac Form 70B, *Manufactured Home Appraisal Report*
Small Residential Income Properties (Two- to Four-Units)	Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*
Appraisal Update (All Property Types)	Summary Appraisal Update Report Section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*
Certification of Completion	Certification of Completion Section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*

Instructions for reporting the results of the appraisal, including data and file format and delivery, are found in the FHA Single Family Housing Appraisal Report and Data Delivery Guide.

a. Application of Minimum Property Requirements and Minimum Property Standards by Construction Status (02/16/2021)

i. Existing Construction

(A) Definition

Existing Construction refers to a Property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

(B) Standard

For Existing Construction, the Appraiser must notify the Mortgagee of the deficiencies when the Property does not comply with HUD's MPR.

ii. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.

- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

(B) Standard

For New Construction, the Appraiser must notify the Mortgagee of the deficiencies when the Property does not comply with HUD's MPR and MPS, including 24 CFR §§ 200.926a–200.926e.

iii. Determination of Defective Conditions

(A) Definition

Defective Conditions refer to defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants, collateral security or structural soundness of the dwelling.

(B) Standard

The Appraiser must identify readily observable defective conditions.

Defective Conditions Requiring Repair

The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR or MPS when cured, and provide an estimated cost to cure.

iv. Inspection by a Qualified Individual or Entity

If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, an inspection by a qualified individual or entity may be required.

Conditions that require an inspection by qualified individuals or entities include:

- standing water against the foundation and/or excessively damp basements;
- hazardous materials on the site or within the improvements;
- faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
- evidence of possible pest infestation;
- leaking or worn-out roofs; or
- any other condition that in the professional judgment of the Appraiser warrants inspection.

Appraisers may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

Required Analysis and Reporting

The Appraiser must observe, analyze and report defective conditions and must also provide photographic documentation of those conditions in the appraisal report.

If inspection is required, the Appraiser must cite the reason for requiring an inspection.

b. Minimum Property Requirements and Minimum Property Standards (08/19/2024)

MPR and MPS form the basis for identifying the deficiencies of the Property that the Appraiser must note within the appraisal report.

i. Legal Requirements

(A) Real Estate Entity

The Appraiser must contact the Mortgagee if the subject Property is not a single, marketable real estate entity, and/or does not consist of a primary plot with a secondary plot contributing to the use and marketability of the Property as a single marketable real estate entity.

(B) Property Rights

(1) Definition

Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

Leasehold refers to the right to hold or use Property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

(2) Standard

An Appraiser must contact the Mortgagee if the property rights to be appraised are not on real estate held in Fee Simple or Leasehold that comply with HUD's requirements below.

(C) Planned Unit Development

(1) Definition

A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee or leasehold title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

(2) Required Analysis and Reporting

The Appraiser must identify the name of the PUD and indicate that the subject is located in a PUD by checking the PUD box on the appraisal form. The Appraiser must also enter the dollar amount of the HOA fee and mark the box indicating if the fees are paid "per year" or "per month."

(D) Leasehold Interest

(1) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

(a) Forward Mortgage Requirements

A Mortgage secured by real estate under Leasehold requires a renewable lease with a term of not less than 99 years, or a lease that will extend not less than 10 years beyond the maturity date of the Mortgage.

(b) Reverse Mortgage (HECM) Requirements

A reverse mortgage, or Home Equity Conversion Mortgage (HECM), secured by real estate on a Leasehold that is under a renewable lease for not less than 99 years, or a lease with the actuarial life expectancy of the Mortgagor. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

(3) Required Analysis and Reporting

An Appraiser must contact the Mortgagee if the Leasehold Interest does not meet this requirement.

ii. Legal and Land Use Considerations

(A) Party or Lot Line Wall

(1) Standard

A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.

(2) Required Analysis and Reporting

The Appraiser must note if the party or lot line wall does not extend to the ridge of the roof or beyond.

(B) Nonresidential Use of Property

(1) Standard

The nonresidential portion of the Total Floor Area may not exceed 49 percent.

Any nonresidential use of the Property must be subordinate to its residential use, character and appearance. Nonresidential use may not impair the residential character or marketability of the Property. The nonresidential use of the Property must be legally permitted and conform to current zoning requirements.

(2) Required Analysis and Reporting

The Appraiser must calculate the nonresidential portion of any residential Property. Storage areas or similar spaces that are integral parts of the nonresidential portion must be included in the calculation of the nonresidential area.

The Appraiser must comment on any nonresidential use within the Property and state the percentage of the Total Floor Area that is utilized as nonresidential. The Appraiser must report whether the nonresidential usage is legal and in compliance with current zoning requirements.

The Appraiser must contact the Mortgagee if the nonresidential portion of the Property exceeds 49 percent.

(C) Zoning

(1) Standard

FHA requires the Property to comply with all applicable zoning ordinances.

(2) Required Analysis and Reporting

The Appraiser must determine if current use complies with zoning ordinances.

If the existing Property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the Appraiser must report the Property as “Legal Non-Conforming” and provide a brief explanation. The Appraiser must analyze and report any adverse effect that the nonconforming use has on the Property’s value and marketability, and state whether the Property may be legally rebuilt if destroyed.

(D) Encroachments

(1) Definition

An Encroachment refers to an interference with or intrusion onto another's property.

(2) Standard

The Appraiser must report the presence of any Encroachments so that the Mortgagee can determine eligibility.

(3) Required Analysis and Reporting

The Appraiser must identify any Encroachments of the subject's dwelling, garage, or other improvement onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Appraiser must also identify any Encroachments of a neighboring dwelling, garage, other physical Structure or improvements onto the subject Property.

The Appraiser must notify the Mortgagee if, upon observation, it appears that an Encroachment affects the subject Property.

(E) Easements and Deed Restrictions

(1) Definition

An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

A Deed Restriction refers to a private agreement that restricts the use of real estate in some way, and is listed in the deed.

(2) Standard

The Appraiser must note the presence of any Easements and Deed Restrictions to assist the Mortgagee in determining eligibility.

(3) Required Analysis and Reporting

The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plats when available through the normal course of business.

iii. Externalities

(A) Definition

Externalities refer to off-site conditions that affect a Property's value.

(B) Standard

The Appraiser must report the presence of Externalities so that the Mortgagee can determine eligibility.

(C) Required Analysis and Reporting

The Appraiser must consider how Externalities affect the marketability and value of the Property, report the issue and the market's reaction, and address any positive or negative effects on the value of the subject Property within the approaches to value.

(1) Heavy Traffic

The Appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.

(2) Airport Noise and Hazards

The Appraiser must identify if the Property is affected by noise and hazards of low flying aircraft because it is near an airport. The Appraiser must review airport contour maps and analyze accordingly. The Appraiser must determine and report the marketability of the Property based on this analysis.

(3) Special Airport Hazards

The Appraiser must identify if the Property is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.

For Properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, including New Construction, the Appraiser must report the hazard and consider the effect on the marketability when valuing the subject Property and must require compliance with the Department of Defense (DoD) Guidelines.

If the Property is New Construction and is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield, the Appraiser must note that the Property is ineligible for FHA insurance and notify the Mortgagee.

(4) Proximity to High Pressure Gas Lines

The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both aboveground and subsurface. The Appraiser must determine and report the marketability of the Property based on this analysis.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the dwelling or related property improvement is not located more than 10 feet from the nearest boundary of the pipeline Easement.

(5) Overhead Electric Power Transmission and Local Distribution Lines

(a) Definitions

Overhead Electric Power Transmission Lines refer to electric lines that supply power from power generation stations to Local Distribution Lines.

Local Distribution Lines refer to electric lines that commonly supply power to residential housing developments, similar facilities and individual Properties.

(b) Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Overhead Electric Power Transmission Lines or the Local Distribution Lines pass directly over any dwelling, Structure or related property improvement, including pools, spas, or water features.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the dwelling or related property improvements are located within an Easement or if they appear to be located within an unsafe distance of any power line or tower.

The Appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances. The Appraiser must also determine if the guidelines for Encroachments apply.

(6) Smoke, Fumes, and Offensive or Noxious Odors

The Appraiser must notify the Mortgagee if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.

The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.

(7) Stationary Storage Tanks

If the subject property line is located within 300 feet of an aboveground, stationary storage tank with a capacity of more than 1,000 gallons of flammable or explosive material, then the Property is ineligible for FHA insurance, and the Appraiser must notify the Mortgagee of the deficiency of MPR or MPS.

iv. Site Conditions

(A) Access to Property

(1) Definition

Adequate Vehicular Access to Property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.

(2) Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property does not have safe pedestrian access and Adequate Vehicular Access from a public street or private street that is protected by a permanent recorded Easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

The Appraiser must note whether there is safe pedestrian access and Adequate Vehicular Access to the site and analyze any effect on value or marketability.

The Appraiser must report evidence of a permanent Easement.

The Appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.

(B) Onsite Hazards and Nuisances

(1) Definition

Onsite Hazards and Nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the Property.

(2) Standard

The Appraiser must report the presence of all onsite hazards and nuisances so that the Mortgagee can determine eligibility and any corrective work that may be necessary to mitigate potential adverse effects from the special conditions.

(3) Required Analysis and Reporting

The Appraiser must note and comment on all onsite hazards and nuisances affecting the Property. The Appraiser must also provide photographs of potential problems or issues to assist the Mortgagee in understanding the problem.

Proposed and Under Construction

The Appraiser must report any special conditions that may exist or arise during construction and necessitate precautionary or hazard mitigation measures.

(C) Topography

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.

The Appraiser must make the appraisal subject to an inspection by a qualified individual or entity if the sales contract or any other documentation indicates, or if the Appraiser observes dampness because of a foundation issue.

The Appraiser must report to the Mortgagee any danger due to topographic conditions (e.g., earth and mudslides from adjoining properties, falling rocks and avalanches) to the subject Property or the adjoining land.

(D) Grading and Drainage

The Appraiser must check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation.

The Appraiser must make the appraisal subject to repair if the grading does not provide positive drainage away from the improvements. The Appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage. The Appraiser must report this in the “Site” section of the report, if the standing water is problematic.

(E) Suitability of Soil

The Appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.

The Appraiser should also consider events and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

The Appraiser must analyze and report how this would affect the Property.

(F) Land Subsidence and Sinkholes

(1) Definition

Land Subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

(2) Standard

Danger of Land Subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsoil or subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes or settlement problems.

(3) Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if there is probable or imminent danger of Land Subsidence so that the Mortgagee can determine eligibility or the need to require the purchase of subsidence insurance.

The Appraiser must analyze and report any readily observable conditions of the surface of the land that indicate potential problems from subsidence or the potential for lack of support for the surface of the land or building foundations.

In mining areas, the Appraiser must analyze and report the depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable or negligible.

(G) Oil or Gas Wells

(1) Operating or Proposed

The Appraiser must examine the site for the existence of any readily observable evidence of an oil or gas well and report the distance from the dwelling.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the dwelling is located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.

(2) Abandoned

If the Appraiser notes an abandoned gas or oil well on the subject site or an adjacent Property, the Appraiser must stop work and notify the Mortgagee.

The Appraiser may resume work when the Mortgagee provides a letter from local jurisdiction or the appropriate state agency, stating that the subject well was permanently abandoned in a safe manner.

The Appraiser may only complete the appraisal on a Property located near a gas well that emits hydrogen sulfide if the minimum clearance has been established by a petroleum engineer. The Appraiser must assess any impact that the location of the well has on the value and marketability of the Property.

Hydrogen Sulfide

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

The Appraiser may only complete an appraisal on a Property if the Mortgagee has required an inspection by a qualified person and provided evidence that the minimum clearance has been established.

(H) Slush Pits

(1) Definition

A Slush Pit refers to a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

(2) Required Analysis and Reporting

If the Property has a Slush Pit, the Appraiser must make the appraisal subject to the removal of all unstable and toxic materials and the site made safe.

(I) Property Eligibility in Special Flood Hazard Areas

The Appraiser must review the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) and make appropriate notations on the applicable appraisal reporting form. If the Property appears to be located within a Special Flood Hazard Area (SFHA), the Appraiser must attach a copy of the flood map panel to the appraisal report.

The Appraiser must enter the FEMA zone designation on the reporting form, and identify the map panel number and map date. If the Property is not shown on any map, the Appraiser must enter "not mapped." The Appraiser must quantify the effect on value, if any, for Properties situated within a designated SFHA.

(J) Coastal Barrier Resources System

The Appraiser must stop work and notify the Mortgagee of the deficiency of MPR or MPS if the Property is located within a Coastal Barrier Resources System (CBRS) designated area.

The Appraiser must review the FEMA FIRM to determine if a Property is located within a CBRS. The FIRM will identify CBRS boundaries through patterns of backward-slanting diagonal lines, both solid and broken. If it appears that the Property is located in a CBRS, the Appraiser must review CBRS location maps to confirm.

(K) Lava Zones

When a Property is located in Hawaii, the Appraiser must review the U.S. Geological Survey (USGS) Lava Flow Hazard Zone maps. The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property is located in Zones 1 or 2.

The Appraiser must report in the "Comments" section that the Property is in the Lava Flow Hazard Zone and provide the Zone Number.

(L) Mineral, Oil, and Gas Reservations or Leases

The Appraiser must analyze and report the degree to which the residential benefits may be impaired or the Property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The Appraiser should consider the following:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- the hazards, nuisances, or damages that may arise or accrue to the subject Property from exercise of reservation or lease privileges on neighboring properties.

(M) Soil Contamination

(1) Definition

Soil Contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.

(2) Standard

Conditions that indicate Soil Contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

(3) Required Analysis and Reporting

The Appraiser must check readily observable evidence of Soil Contamination and hazardous substances in the soil. The Appraiser must report the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject Property.

(N) Residential Underground Storage Tanks

The Appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or onsite contamination, the Appraiser must make a requirement for further inspection.

v. New Construction Site Analysis

The Appraiser must obtain a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed Construction, Properties Under Construction or Properties Existing Less than One Year.

The Appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the Appraiser's observations.

vi. Excess and Surplus Land

(A) Definition

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

(B) Required Analysis and Reporting

The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser's conclusion of the existence of Excess Land. The Appraiser must include Surplus Land in the valuation.

If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a nonconformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

vii. Characteristics of Property Improvements

(A) Minimum Requirements for Living Unit

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if each living unit does not contain any one of the following:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- space adequate for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water;
- electricity adequate for lighting and for mechanical equipment used in the living unit; and
- kitchen facilities adequate for the preparation and cooking of food. Every living unit must have at least one area with kitchen facilities, which must include, at a minimum, a sink with potable running water and a stove utility hookup.

FHA does not have a minimum size requirement for one- to four-family dwellings and Condominium Units. For Manufactured Housing requirements, see the Manufactured Housing section.

(B) Access to Living Unit

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit. For attached dwellings, the access may be by means of alley, Easement, common area or passage through the dwelling.

The Appraiser must report when the Property has security bars on bedroom windows or doors.

(C) Nonstandard House Styles

(1) Definition

Nonstandard House Style refers to unique Properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower than normal ceiling heights, and other houses that in the Appraiser's professional opinion, are unique.

(2) Required Analysis and Reporting

The Appraiser must provide a comment that the nonstandard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a Property to be fully marketable, the Appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.

The Appraiser may require additional education, experience, or assistance for these types of Properties.

(D) Modular Housing

(1) Definition

Modular Housing refers to Structures constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house. Although quality can vary, all of the materials – from framing, roofing and plumbing to cabinetry, interior finish and electrical – are identical to what is found in comparable quality conventional "stick-built" housing.

(2) Required Analysis and Reporting

The Appraiser must treat Modular Housing the same as stick-built housing, including reporting the appraisal on the same form. The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing or Manufactured Housing.

(E) Accessory Dwelling Unit

(1) Identification of an Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) is subordinate in size, location, and appearance to the primary Dwelling Unit and may or may not have separately

metered utilities. The ADU must comport with zoning requirements, which may include a legal nonconforming use.

(2) Required Analysis and Reporting Protocols

As part of the highest and best use analysis, the Appraiser must make the determination to classify the Property as a Single Family dwelling with an ADU, or a two-family dwelling. The conclusion of the highest and best use analysis will then determine the classification of the Property and the required analysis reporting.

(a) One-Unit Single Family Dwelling with an Accessory Dwelling Unit

When the highest and best use analysis determines the Property to be a Single Family dwelling with an ADU, the Appraiser must:

- provide a description of the ADU characteristics;
- summarize the ADU's market acceptance;
- report the Gross Living Area of the ADU separate from the primary dwelling;
- state whether the ADU can be legally rented without restrictions; and
- report the current ADU occupancy and the relevant details of any known lease agreements.

(b) Optional Accessory Dwelling Unit Market Rent Analysis

The Mortgagee may request an opinion of the ADU market rent in the scope of work. The Appraiser may provide the ADU market rent only if:

- the highest and best use is determined to be a one-unit Single Family dwelling with an ADU;
- the ADU is legally rentable without restrictions; and
- the Appraiser determines that a non-transient (see Restriction on Investment Properties for Hotel and Transient Use) monthly market rent can be credibly developed.

The analysis of the rental data must include support for the ADU comparable rental selections, the adjustments applied, and the opinion of the ADU market rent. The Appraiser must include the ADU opinion of market rent on Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, as an attachment to the appraisal and include the following supplemental statement:

> "*This form is completed to provide FHA an opinion of the market rent of the subject's legally rentable Accessory Dwelling Unit (ADU). Sufficient competitive market data exists to develop credible results.*"

Appraisers completing the optional ADU market rent analysis must comply with FHA's Appraiser Competency Requirement.

The Appraiser must contact the Mortgagee if unable to fulfill a request for ADU market rent analysis.

(c) Comparable Selection for Optional Accessory Dwelling Unit Market Rent Analysis

The Appraiser must include a sufficient number of comparable rents to produce a credible ADU market rent estimate. The comparables used to develop the ADU market rent must not include properties rented for hotel or transient purposes, or for periods less than 30 Days. The Appraiser must include at least one comparable rental that is a Single Family dwelling with a rented ADU. If a Single Family dwelling with a rented ADU is not available, the Appraiser must supplement with the most appropriate rental available and summarize the reason for the selection and how the marketability of the ADU was determined.

(F) Additional Manufactured Home on Property

The Appraiser may consider a Manufactured Home to be an ADU if it meets the highest and best use and FHA requirements.

The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

(G) Leased Equipment, Components, and Mechanical Systems

The Appraiser must not include the value of leased mechanical systems and components in the Market Value of the subject Property. This includes furnaces, water heaters, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the property owner. The Appraiser must identify such systems in the appraisal report.

c. Gross Living Area (04/18/2023)

i. Definition

Gross Living Area (GLA) refers to the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure. It includes only finished, habitable, above-grade living space.

ii. Required Analysis and Reporting

The Appraiser must:

- identify noncontiguous living area and analyze its effect on functional utility;

- ensure that finished basements and unfinished attic areas are not included in the total GLA; and
- use the same measurement techniques for the subject and comparable sales, and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

In the case of nonstandard Properties and floor plans, the Appraiser must observe, analyze, and report the market expectations and reactions to the unique Property.

The Appraiser may apply a supplemental measurement standard if it does not conflict with these requirements and the Appraiser discloses the use of the standard.

iii. Additions and Converted Space

The Appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space:

- is accessible from the interior of the main dwelling in a functional manner;
- has a permanent and sufficient heat source; and
- was built in keeping with the design, appeal, and quality of construction of the main dwelling.

Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the Sales Comparison Approach (SCA) Grid, not in the GLA. The Appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as Contributory Value, if any.

The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space. If the Appraiser chooses to include converted living spaces as GLA, the Appraiser must include an explanation detailing the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and market reaction.

Alternatively, the Appraiser may consider and analyze converted living spaces on a separate line within the SCA Grid, including the functional utility line to demonstrate market reaction.

The Appraiser must not add an ADU or secondary living area to the GLA.

iv. Partially Below-Grade Habitable Space

(A) Definition

Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.

(B) Required Analysis and Reporting

The Appraiser must report the design and measurements of the subject, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.

Regardless of the description of the rooms, bedrooms or baths as above grade or below grade, the Appraiser must analyze all components of the subject Property in the valuation process.

v. Bedrooms

The Appraiser must not identify a room as a bedroom that cannot accommodate ingress or egress in the event of an emergency, regardless of location above or below grade.

d. Appliances (09/14/2015)

i. Definition

Appliances refer to refrigerators, ranges/ovens, dishwashers, disposals, microwaves, and washers/dryers.

ii. Standard

Appliances that are to remain and that contribute to the market value opinion must be operational.

iii. Required Analysis and Reporting

The Appraiser must note all appliances that remain and contribute to the Market Value.

e. Swimming Pools (09/14/2015)

The Appraiser must report readily observable defects in a noncovered pool that would render the pool inoperable or unusable. If the pool water contains algae and is aesthetically unappealing, but the Appraiser has no evidence that the pool is otherwise contaminated, no cleaning is required. Swimming pools must be operational to provide full Contributory Value.

The Appraiser must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines, and the surrounding land regraded if necessary.

If the swimming pool has been winterized, or the Appraiser cannot determine if the pool is in working order, the Appraiser must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to full operating condition at normal costs.

f. Utilities ‑ Mechanical Components (02/16/2021)

The Appraiser must notify the Mortgagee if mechanical systems do not appear:

- to have reasonable future utility, durability, and economy;
- to be safe to operate;
- to be protected from destructive elements; or
- to have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance. If the systems appear to be damaged or do not appear to function properly, the Appraiser must condition the appraisal for repair or further inspection.

If the Property is vacant, the Appraiser must note in the report whether the utilities were on or off at the time of the appraisal.

If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:

1. render the appraisal as subject to reobservation;
2. condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
3. complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

The Appraiser must note that the reobservation may result in additional repair requirements once all the utilities are on and fully functional.

If systems could not be operated due to weather conditions, the Appraiser must clearly note this in the report. The Appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the Appraiser cannot determine if one or all of these systems are working properly.

i. Heating and Cooling Systems

The Appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the permanently installed heating system does not:

- automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;
- provide healthful and comfortable heat or is not safe to operate;
- rely upon a fuel source that is readily obtainable within the subject's geographic area;
- have market acceptance within the subject's marketplace; and
- operate without human intervention for extended periods of time.

Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the Appraiser must indicate the level of deferred maintenance, analyze and report the effect on marketability, and include the cost to cure.

ii. Electrical System

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.

The Appraiser must examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amperage and panel size appears inadequate for the Property. The Appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. The Appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical device or control.

iii. Plumbing System

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the plumbing system does not function to supply water pressure, flow and waste removal.

The Appraiser must flush the toilets and operate a sample of faucets to observe water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there are no readily observable evidence of leaks or structural damage under fixtures.

The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

If the Property has a septic system, the Appraiser must visually observe it for any signs of failure or surface evidence of malfunction. If there are readily observable deficiencies, the Appraiser must require repair or further inspection.

g. Roof Covering (09/14/2015)

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the roof covering does not prevent entrance of moisture or provide reasonable future utility, durability and economy of maintenance and does not have a remaining physical life of at least two years.

The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility. The Appraiser must identify the roofing material type and the condition observed in the "Improvements" section of the report.

The Appraiser must report if the roof has less than two years of remaining life, and make the appraisal subject to inspection by a professional roofer.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

h. Structural Conditions (09/14/2015)

The Appraiser must report on structural conditions so that the Mortgagee can determine if the foundation and Structure of the Property will be serviceable for the life of the Mortgage.

The Appraiser must perform a visual observation of the foundation and Structure of the improvements and report those results. If the Appraiser notes any structural issues, the Appraiser must address the nature of the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

i. Defective Paint (04/10/2025)

If the dwelling or related improvements were built before 1978, refer to Lead-Based Paint.

If the dwelling or related improvements were built in or after 1978, the Appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements. Unpainted surfaces intended to withstand the elements, such as stained or pressure-treated wood, do not require repair.

j. Attic Observation Requirements (04/18/2023)

The Appraiser must visually observe the interiors of attic spaces to the extent these areas are safely accessible. The Appraiser is not required to disturb insulation or move items that obstruct access or visibility.

If the observation reveals evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold, etc.), the Appraiser must report this condition, and

render the appraisal subject to inspection or subject to repairs in compliance with the Repair Requirements.

The Appraiser must report when the attic space is not safely accessible. The Appraiser must complete the appraisal subject to inspection by a qualified third party only if further observation of inaccessible attic area(s) is necessary to determine compliance with MPR and MPS.

k. Foundation (04/10/2025)

The Appraiser must examine the foundation for readily observable evidence of safety or structural deficiencies that may require repair. If a deficiency is noted, the Appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections in the appraisal where physical deficiencies or adverse conditions are reported.

i. Basement

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.

ii. Sump Pumps

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the sump pump is not properly functioning at the time of appraisal. A sump pump may be hard-wired by an acceptable wiring method or may have a factory electrical cord that is to be connected to a receptacle suitable for such use.

l. Crawl Space Observation Requirements (04/18/2023)

The Appraiser must visually observe areas of the crawl space to the extent these areas are safely accessible. The Appraiser is not required to disturb insulation or move items that obstruct access or visibility.

If the observation reveals evidence of a deficient condition (such as excessive dampness, insufficient ventilation, or smell of mold, etc.), the Appraiser must render the appraisal subject to inspection or subject to repairs, in compliance with the Repair Requirements.

The Appraiser must report when the crawl space is not safely accessible. The Appraiser must complete the appraisal subject to inspection by a qualified third party only if further observation of inaccessible crawl space area is necessary to determine compliance with MPR and MPS.

m. Environmental and Safety Hazards (01/24/2022)

The Appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

Environmental and safety hazards may include defective lead-based paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the Structure from soil or other differential ground movements, subsidence, flood, and other hazards.

i. Lead-Based Paint

(A) Improvements Built Before 1978

The Appraiser must note the condition and location of all defective paint and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements. The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, deck, porch, railings, windows and doors, for defective paint (cracking, scaling, chipping, peeling, or loose). Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant Structures.

(B) Condominium Units Built Before 1978

The Appraiser must observe the interior of the unit, common unit and exterior surfaces and appurtenant Structures of the specific unit being appraised; and address the overall condition, maintenance and appearance of the Condominium Project. The Appraiser must note the condition and location of all defective paint in the unit, common area and exterior, and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements.

ii. Methamphetamine Contaminated Property

If the Mortgagee notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.

If the effective date of the appraisal is prior to certification that the Property (site and dwelling) is safe for habitation, the Appraiser will complete the appraisal subject to certification that the Property is safe for habitation.

If the effective date of the appraisal is after certification that the Property (site and dwelling) is safe for habitation, and the Mortgagee has provided a copy of the certification by the certified hygienist, the Appraiser must include a copy of the certification in the appraisal report.

The Appraiser must analyze and report any long-term stigma caused by the Property's contamination by meth and the impact on value or marketability.

iii. Wood Destroying Insects/Organisms/Termites

The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests. The Appraiser's observation is not required to be at the same level as a qualified pest control specialist.

If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal subject to inspection by a qualified pest control specialist.

n. Repair Requirements (09/14/2015)

When examination of New or Existing Construction reveals noncompliance with MPR and MPS, the Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

If compliance can only be effected by major repairs or alterations, the Appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal, within the reporting form.

Regardless of the Appraiser's suggested repairs, the Mortgagee will determine which repairs are required.

i. Limited Required Repairs

The Appraiser must limit required repairs to those repairs necessary to:

- maintain the safety, security and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.

ii. As-Is Condition and Cosmetic Repairs

The Appraiser may complete an as-is appraisal for existing Properties when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the Property. Cosmetic or minor repairs are not required, but the Appraiser must report and consider them in the overall condition when rating and valuing the Property. Cosmetic repairs include missing handrails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser's professional judgment do not pose a health and safety issue to the occupants of the house.

If an element is functioning well but has not reached the end of its useful life, the Appraiser should not recommend replacement because of age.

iii. Defective Conditions Requiring Repair

The nature and degree of any noted deficiency will determine whether the Appraiser must address the deficiency in the narrative comments area of the report under "condition of the property" or "physical deficiencies" affecting livability or structural soundness.

iv. Conditions Requiring Inspection by a Qualified Individual or Entity

The Appraiser must notify the Mortgagee and make the appraisal subject to an inspection by a qualified individual or entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the Appraiser's ability to assess. The Appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair.

o. Utility Services (04/18/2023)

i. Definition

Utility Services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone.

ii. Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the subject Property is an attached, detached, or manufactured Single Family dwelling and the utilities are not independent for each living unit. This does not apply to ADUs.

The Appraiser must also notify the Mortgagee of the deficiency of MPR or MPS if utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body.

(A) Multiple Living Units Under Single Ownership

A Property may contain multiple living units under a single Mortgage or ownership (two- to four-family Properties) that utilize common services, such as water, sewer, gas and electricity and is served by one meter in jurisdictions that allow single meter rental properties. In such cases, the Appraiser should note a deficiency of MPR or MPS if separate utility service shut-offs are not provided for each living unit.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if utilities or services are not provided with independent shut-offs for each living unit, except common services such as laundry, storage space or heating, in two- to four-living unit buildings under a single Mortgage.

(B) Living Units Under Separate Ownership

The Appraiser should not note the deficiency of MPR or MPS if the Property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an Easement or covenant and maintenance agreement, unless individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities.

If a single drain line in the building serves more than one unit, and the building drain clean-outs are not accessible from the exterior, the Appraiser must note the deficiency of MPR or MPS to the Mortgagee.

iii. Public Water Supply Systems

(A) Definition

A Public Water Supply System refers to a system that is owned by a governmental authority or by a utility company that is controlled by a governmental authority.

(B) Standard

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating the water is unsafe.

(C) Required Analysis and Reporting

The Appraiser must:

- report any readily observable or known deficiencies with the water;
- notify the Mortgagee when water is determined to be unsafe, report, and provide a cost to cure; and
- address any impact on value and marketability, and make the appropriate adjustments.

iv. Community Water Systems

(A) Definition

A Community Water System refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association.

(B) Standard

A Community Water System must comply with local jurisdiction requirements.

(C) Required Analysis and Reporting

If the Property is on a Community Water System, the Appraiser must note the name of the water company on the appraisal report.

v. Individual Water Supply Systems

(A) Definition

An Individual Water Supply System refers to a potable water source providing water to an individual Property.

(B) Standard

When an Individual Water Supply System is present, water quality must meet the requirements of the health authority with jurisdiction. If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141–142.

(C) Required Analysis and Reporting

The Appraiser must report on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection.

When the Appraiser obtains evidence that any of the water quality requirements are not met, the Appraiser must notify the Mortgagee and provide an estimated cost to cure.

The Appraiser must note the deficiency of MPR or MPS if the subject Property contains a well located within the foundation walls of an existing dwelling, unless there is evidence that:

- the local jurisdiction recognizes and permits such a location;
- it is common for the market area; and
- it does not adversely affect marketability.

A well located within the foundation walls of a dwelling is not acceptable for New Construction except in arctic or subarctic regions.

The Appraiser must report when water to a Property is supplied by dug wells, cisterns, or holding tanks used in conjunction with water purchased and hauled to the site. The Appraiser must report whether such systems are readily accepted by local market participants.

The Appraiser must note the deficiency of MPR or MPS if the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells, or artesian wells.

A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.

The Appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:

- the water supply relies upon a water purification system due to the presence of contaminates;
- corrosion of pipes (plumbing);
- areas of intensive agricultural uses within one quarter mile;
- coal mining or gas drilling operations within one quarter mile;
- a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
- an unusually objectionable taste, smell, or appearance of well water.

The Appraiser must also be familiar with the minimum distance requirements between private wells and sources of pollution and, if discernible, comment on them. The Appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building Structures but may provide estimated distances where they are comfortable doing so. When available, the Appraiser should obtain from the homeowner or Mortgagee a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.

vi. Shared Wells

(A) Definition

A Shared Well refers to a well that services two to four homes where there is a binding Shared Well Agreement between the property owners that meets FHA requirements.

(B) Required Analysis and Reporting

If the Property has a Shared Well, the Appraiser must report it and note any readily observable deficiencies. The Appraiser must also obtain a Shared Well Agreement and include it in the appraisal report so that the Mortgagee may review the agreement to determine eligibility. The Appraiser must also require an inspection and water testing under the same circumstances as an individual well.

vii. Individual Residential Water Purification Systems

(A) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(B) Required Analysis and Reporting

If a Property is served by an individual residential water purification system, the Appraiser must indicate which type of system is installed on the Property, either point-of-entry or point-of-use.

The Appraiser must report on the conditions requiring connection of the individual residential water purification system.

p. Onsite Sewage Disposal Systems (09/14/2015)

i. Definition

An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of effluent on the same Property that produces the wastewater.

ii. Required Analysis and Reporting

The Appraiser must note the deficiency of MPR or MPS and notify the Mortgagee if the Property is not served by an off-site sewer system and any living unit is not provided with an Onsite Sewage Disposal System adequate to dispose of all domestic wastes in a manner that will not create a nuisance, or in any way endanger the public health.

The Appraiser must visually observe the Onsite Sewage Disposal System and its surrounding area. The Appraiser must require an inspection to ensure that the system is in proper working order if there are readily observable signs of system failure. The Appraiser must report on the availability of public sewer to the site.

The Appraiser must note the deficiency of MPR or MPS and notify the Mortgagee if the Appraiser has evidence that the Onsite Sewage Disposal System is not sufficient.

4. Valuation and Reporting Protocols

a. Photograph, Exhibits, and Map Requirements (06/27/2025)

The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or outbuildings contributing value. The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser's observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	**Minimum Photograph Requirements**
Subject Property Exterior	• Front and rear of the dwelling • Improvements with Contributory Value not captured in the front or rear photographs • Street scene • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	• Kitchen, main living area, bathrooms, and bedrooms • Any other rooms representing overall condition • Basement • Recent updates, such as restoration, remodeling, and renovation
Comparable Sales, Listings, and Pending Sales	• Front view of each comparable utilized
View	• Photographs of any negative or positive view influences that substantially affect value or marketability
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair

b. Intended Use and Intended Users of Appraisal (09/14/2015)

The intended use of the appraisal is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage (24 CFR § 200.145(b)).

FHA and the Mortgagee are the intended users of the appraisal report.

The FHA Appraiser does not guarantee that the Property is free from defects. The appraisal establishes the value of the Property for mortgage insurance purposes only.

c. Development of the Market Value (06/27/2025)

i. Value Required

(A) Definition of Market Value

Market Value refers to the most probable price which a Property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what they consider their own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the Property sold unaffected by special or creative financing or Sales Concessions granted by anyone associated with the sale.

Adjustments to the comparables must be made for special or creative financing or Sales Concessions. No adjustments are necessary for those costs, which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable Property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the Property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the Appraiser's judgment.

(B) Standard

The Appraiser must determine the Market Value of the subject Property.

(C) Required Analysis and Reporting

The Appraiser must analyze all data researched and collected prior to reporting the value. The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include the value of Personal Property in the appraisal.

ii. Appraisal Conditions

(A) Definition

Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the conclusion of value can be considered valid.

(B) Standard

Conclusions about the observed conditions of the Property provide the rationale for the opinion of Market Value.

The completed appraisal form, together with the required exhibits, constitutes the reporting instrument for FHA-insured Mortgages. Conditions of the Property, mortgage type and the market will determine if the appraisal is to be performed as-is, or if the value opinion needs to be conditioned upon an extraordinary assumption(s), a hypothetical condition(s), subject to an additional inspection, or completion of construction, repairs or alterations.

(C) Required Analysis and Reporting

The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to eliminate conditions threatening the continued use, security, and marketability of the Property.

The following table illustrates property conditions under which an Appraisal Condition must be made.

Report Conclusion	Appraisal Condition
1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser. 2. Establishing the As-Is Value for a 203(k). 3. The Property is being recommended for rejection. 4. Intended use is for Pre-Foreclosure Sale (PFS) in accordance with 24 CFR § 203.370 or Claims Without Conveyance of Title (CWCOT) in accordance with 24 CFR § 203.368. 5. Intended use is for Real Estate Owned (REO) in accordance with 24 CFR § 291.100.	"As-is"
1. Proposed Construction where construction has not started. 2. Under Construction but not yet complete (less than 90%). 3. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.	"Subject to completion per plans and specifications"
1. Repair or Alteration Condition(s) noted by the Appraiser to: • protect the health and safety of the occupants; • protect the security of the Property; • correct physical deficiencies or conditions affecting structural integrity. 2. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work. 3. Under Construction, 90% or more complete with only minor finish work remaining (buyer preference items e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications.	"Subject to the following repairs or alterations"

Report Conclusion	Appraisal Condition
Required inspection(s) to meet HUD's Minimum Property Requirements and Minimum Property Standards.as noted by the Appraiser.	"Subject to the following required inspection"

When New Construction is less than 90 percent complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90 percent or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

iii. Valuation Development

(A) Standard

There are three valuation approaches as applied to one-to four-residential unit Properties:

- sales comparison approach;
- cost approach; and
- income approach to value.

(B) Required Analysis and Reporting

The Appraiser must obtain credible and verifiable data to support the application of the three approaches to value.

The Appraiser must perform a thorough analysis of the characteristics of the market, including the supply of properties that would compete with the subject and the corresponding demand.

The Appraiser must perform a highest and best use of the Property, using all four tests and report the results of that analysis.

(C) FHA Data Requirements for the Subject and Comparable Properties

The Appraiser must verify the characteristics of the transaction (such as sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources.

The Appraiser must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, Mortgagees, or other parties with relevant information. If the sale cannot be verified by a party to the transaction, the Appraiser may rely on public records or another verifiable impartial source.

MLS records and property site visits alone are not acceptable verification sources.

(D) Effective Age

Standard

The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.

(E) Approaches to Value

The Appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant.

(1) Cost Approach to Value

The Appraiser may use any of the credible and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other credible source that can be duplicated by the reader).

If the Appraiser uses cost estimates provided by the contractor or builder of the Property, the cost estimates must be reasonable and independently verified.

(a) Land Valuation

(i) Standard

If the cost approach is applicable, the Appraiser must estimate the site value. Acceptable methodology used to estimate land value include sales comparison, allocation, and extraction.

(ii) Required Analysis and Reporting

The Appraiser must include a summary of the supporting documentation and analysis in the appraisal. The Appraiser must maintain comparable land sales data and analysis or other supporting information in the Appraiser's file and include it by reference in the appraisal. For Properties with Excess Land, the Appraiser must include all comparable land sale data and analysis in the report.

(b) Estimate of Cost New for Housing

(i) Standard

The Appraiser may use either the replacement cost or the reproduction cost.

(ii) Required Analysis and Reporting

The Appraiser must state the method used and the source of the data.

The Appraiser must use the current version of a published cost data source recognized by the industry. The Appraiser must report the quality rating selected and utilized, as well as identify the source of the data, and its publication and/or effective date. The Appraiser is expected to be aware of local cost data from builders, contractors, building supply firms, and other building industry participants as a check against the published cost data.

The Appraiser must also provide a supporting explanation when applying adjustments to the published cost data, such as adjustments for:

- transportation and labor in remote areas;
- entrepreneurial profit; or
- fees and charges unique to the area.

Instructions for the cost approach as applied to Manufactured Homes are addressed in the Manufactured Home Appraisal Report section of the FHA Single Family Housing Appraisal Report and Data Delivery Guide.

(2) Income Approach to Value for Residential Properties

(a) Standard

The Appraiser should apply the income approach to a Single Family residential Property when there is evidence of recently rented and then sold data pairs.

The Appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restrictions. If comparable sales do not have rent control restrictions similar to those of the subject, an appropriate adjustment should be applied.

(b) Required Analysis and Reporting

The Appraiser must analyze rental data and provide support for the estimated market rents and adjustments applied to the comparable rentals in the reconciliation of this approach.

The Appraiser must derive the Gross Rent Multiplier (GRM) factor from market data and support it prior to applying it to the market rent for the subject.

(3) Sales Comparison Approach

(a) Standard

The sales comparison approach is required for all appraisals.

(b) Required Analysis and Reporting

The Appraiser must present the data, points of comparison, and analysis; provide support for the Appraiser's choice of comparable properties, and the adjustments for dissimilarities to the subject; and include sufficient description and explanation to support the facts, analyses and the Appraiser's conclusion.

If the data from the market area is insufficient to support some of these requirements, the Appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached and the steps taken by the Appraiser to attempt to meet the guidelines.

(c) Comparable Sale Selection

(i) Characteristics of the Property

Comparable sale selection must be based on properties having the same or similar locational characteristics, physical characteristics and the priority the market assigns to each factor, including:

- site;
- site view;
- location;
- design;
- appeal;
- style;
- age;
- size;
- utility;
- quality;
- condition; and
- any other factor that in the Appraiser's professional judgment is recognized as relevant in the subject market.

(ii) Characteristics of the Transaction

Definition

An Arm's Length Transaction refers to a transaction between unrelated parties and meets the requirements of Market Value.

Standard

The Appraiser must utilize Arm's Length Transactions for comparable properties except when there is evidence that REO sales or short sale/Pre-Foreclosure Sale (PFS) transactions are so prevalent that normal Arm's Length Transactions are not present or supported by the market trend.

A transaction involving a foreclosure transfer to a Mortgagee is not evidence of the Market Value, and is not a valid type of comparable sale for an FHA-insured Mortgage.

The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an Arm's Length Transaction:

- REO sale – transfer from Mortgagee to new owner;
- short sale/PFS;
- estate sale;
- court-ordered sale;
- relocation sale; and
- flip transactions.

Required Analysis and Reporting

The Appraiser must include as many comparable properties as are necessary to support the Appraiser's analysis and conclusion. At a minimum, the Appraiser must include the most recent and relevant sales, preferably within the last six months. The Appraiser must include at least three sales that settled no longer than 12 months prior to the effective date of the appraisal. The Appraiser must provide additional support by including more sales, offerings, offerings now under contract, or relevant sales that settled more than 12 months prior to the effective date of the appraisal.

The Appraiser must analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales or may not be classified as directly similar to the Property.

(d) Adjusting Comparable Properties

(i) Standard

Calculation of the Contributory Value includes methods based on the:

- direct sales comparison approach;
- cost approach; and
- income approach.

(ii) Required Analysis and Reporting

The Appraiser must apply all appropriate techniques and methods, conduct an analysis, and report the results. The Appraiser must include the reasoning that supports the analyses, opinions, and conclusions in the report.

(e) Comparable Selection in Diverse Real Estate Markets

(i) Standard

Comparable sales should be selected based on similar locational and physical characteristics, not sales price.

Subdivisions, Condominiums or Planned Unit Development Projects

Arm's length resale activity from within the established subdivision, condominium or PUD project is often the best indicator of value.

(ii) Required Analysis and Reporting

The Appraiser must include an analysis of the comparable properties that includes an explanation. The analysis must reflect typical Borrower expectations and behavior.

Subdivisions, Condominiums or Planned Unit Development Projects

If the Appraiser uses sales of comparable properties that are located outside of the subject's subdivision or project, the analysis must reflect typical Borrower expectations and behavior.

For Properties in new subdivisions, or units in new (or recently converted) Condominium Projects, the Appraiser must include, for comparison, properties in the subject market area as well as properties within the subject subdivision or project. Whenever possible, the Appraiser must select at least one sale from a competing subdivision or project and one sale from within the subject subdivision or project so that this market acceptance may be directly compared. If the new project is mature enough to have experienced arm's length resales, the Appraiser must also analyze and report those properties.

(f) Comparable Sale Selection in Rural and Slow Growth Markets

If insufficient comparable sales have occurred within the previous six months, the Appraiser must include at least three sales that occurred less than 12 months prior to the date of appraisal.

Where there is a scarcity of recent comparable sales data, the Appraiser may include sales older than 12 months as additional sales in markets. The Appraiser must report the most recent and relevant sales, and include a thorough explanation of the market conditions, the levels of supply and demand, and a reason for the lack of recent sales data.

(g) Sales Concessions

(i) Definition

Sales Concessions refer to non-realty items, upgraded features in newly constructed houses, or special financing incentives.

(ii) Standard

Adjustments are not calculated on a dollar for dollar cost of the financing or Sales Concession. However, the dollar amount of any adjustment should approximate the market's reaction to the Sales Concessions based on the Appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the Sales Concessions, and what the Property would have sold for without the concessions under typical market conditions.

(iii) Required Analysis and Reporting

The Appraiser must verify all comparable sales transactions for Sales Concessions and report those findings in the appraisal. The Appraiser must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one of their representatives), the Appraiser must report the lack of verification.

The Appraiser must make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The Sales Concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The Appraiser must include an explanation of the effect of the Sales Concessions on the sale price of the comparable.

(h) Bracketing

(i) Definition

Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.

(ii) Standard

Comparable properties must be selected based on the principle of substitution, and the analysis will reveal the relevance of that data. Comparable properties should not be chosen only because their prices bracket a desired or estimated value.

(iii) Required Analysis and Reporting

In analyzing the comparable pool to determine the best comparable sales to display and compare in the SCA Grid, the Appraiser must use Bracketing techniques when possible and appropriate.

(i) Market Condition (Time) Adjustments

(i) Definition

Market Condition Adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

(ii) Standard

Within the SCA Grid, the selected comparable properties may be adjusted if they were contracted for sale during a market period different from that of the date of valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation, when the date of the contract is known.

(iii) Required Analysis and Reporting

The Appraiser must provide a summary comment and support for all conclusions relating to the trend of the current market and the adjustment.

(F) FHA Appraisal Requirements for Market Conditions and Changing Markets

(1) Definitions

Increasing Market refers to any neighborhood or market area that demonstrates an increasing property value trend.

Decreasing Market refers to any neighborhood or market area that demonstrates a declining property value trend.

(2) Standard

An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

The analysis and valuation of properties to be used as collateral for FHA-insured financing must consider and properly address market trends in the subject's market. The Appraiser must determine if the market property value trends are increasing, stable, or declining.

The final conclusion must be based on the reconciliation of all data.

(a) Increasing Markets

In an Increasing Market, positive Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(b) Decreasing Markets

In a Decreasing Market, negative Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(3) Required Analysis and Reporting

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the "Neighborhood" section of the appraisal report form.

The Appraiser must accurately report market conditions and determine when property value trends are increasing, stable, or declining. If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

(G) Final Reconciliation and Conclusion

(1) Definition

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

(2) Standard

After the approaches to value are completed, the Appraiser must check the data, calculations and conclusions. The Appraiser must reconcile each approach to value, and must reconcile all approaches into a final estimate of value for the Property.

(3) Required Analysis and Reporting

If the appraisal has no conditions, the Appraiser must render an as-is value opinion.

If the Appraiser must conclude the report under a hypothetical condition or extraordinary assumption, the Appraiser must report the issues and requirements as one of the following:

- "subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed;"
- "subject to the following repairs or alterations (list them) on the basis of a hypothetical condition that the repairs or alterations have been completed;" or
- "subject to a required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair."

(H) Signature

(1) Standard

The FHA Roster Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the FHA Roster Appraiser. A trainee or licensee may accompany the FHA Roster Appraiser on the observations but may not perform the observations in place of the FHA Roster Appraiser.

The FHA Roster Appraiser must select the comparable properties and perform all critical analyses contained in the appraisal report. The FHA Roster Appraiser must

also inspect the subject Property and at least the exterior of the comparable properties.

(2) Required Analysis and Reporting

If another appraiser or trainee appraiser provided assistance or participated in the preparation of the appraisal, the FHA Roster Appraiser must disclose the name of the appraiser or trainee appraiser in the report and their role in developing the appraisal.

d. Reporting Prior Sales (04/10/2025)

The Appraiser must provide an analysis of all prior sales or transfers of the subject Property that occurred within three years of the effective date of the appraisal and comparable sales that occurred within one year prior to the date of sale.

e. Remote Observation (08/19/2024)

i. Definition

Remote Observation is a technology-based method that allows the Appraiser to directly observe the Property characteristics, concurrently and in coordination with another individual at the Property. The technology must provide data capture of the observation and include metadata with geocoding for location confirmation.

ii. Required Analysis and Reporting

All required visual exhibits and photograph images for the applicable scope of work must be included. A Remote Observation option is only available in connection with:

- damage inspections in a Presidentially-Declared Major Disaster Area (PDMDA); or
- completing the Certification of Completion section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report*, for the reobservation of a Property.

When using a Remote Observation technology, the appraisal report must include a certification that states the visual inspection was performed with Remote Observation and the technology verified the location of the Property.

5. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages

a. Definitions (11/10/2026)

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional eligibility standards prescribed in Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages.

A Manufactured Home refers to a single Dwelling Unit of Manufactured Housing.

b. Standard (09/14/2015)

The Appraiser must notify the Mortgagee and report a deficiency of MPR or MPS if a Manufactured Home does not comply with the following:

- have a floor area of not less than 400 square feet;
- was constructed on or after June 15, 1976, in conformance with the federal MHCSS, as evidenced by an affixed HUD Certification Label in accordance with 24 CFR § 3280.11 (Manufactured Homes produced prior to that date are ineligible for insured financing) ;
- the Manufactured Home and site exist together as a real estate entity in accordance with state law (but need not be treated as real estate for taxation purposes);
- was moved from the factory or dealer directly to the site;
- was designed to be used as a dwelling with a permanent foundation built to comply with the PFGMH;
- the finished grade elevation beneath the Manufactured Home or, if a basement is used, the grade beneath the basement floor is at or above the 100-year return frequency flood elevation;
- the Structure is designed for occupancy as a Principal Residence by a single family; or
- the lease meets the requirements of Valuation of Leasehold Interest.

c. Foundation Systems (02/16/2021)

i. New Construction for Manufactured Housing

(A) Definition

New Construction for Manufactured Housing refers to a Manufactured Home that has been permanently erected on a site for less than one year prior to the case number assignment date.

(B) Standard

The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be adequately secured to the perimeter of the house and be constructed of materials that conform, accordingly, to HUD MPS (such as concrete, masonry or treated wood) and the PFGMH for foundations.

(C) Required Analysis and Reporting

If the Manufactured Home foundation does not meet the requirements for New Construction, the Appraiser must notify the Mortgagee and report the deficiency of the MPR or MPS.

ii. Existing Construction for Manufactured Housing

(A) Definition

Existing Construction for Manufactured Housing refers to a Manufactured Home that has been permanently installed on a site for one year or more prior to the case number assignment date.

(B) Standard

If the perimeter enclosure is non-load bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood or a product with similar strength and durability.

(C) Required Analysis and Reporting

If the Manufactured Home foundation does not meet the requirements for Existing Construction, the Appraiser must notify the Mortgagee and report the deficiency in the MPR.

d. Running Gear (09/14/2015)

i. Definition

Running Gear refers to a mechanical system designed to allow the Manufactured Housing unit to be towed over public roads.

ii. Standard

The towing hitch and Running Gear must be removed.

iii. Required Analysis and Reporting

The Appraiser must notify the Mortgagee and report deficiency of MPR or MPS if the Running Gear or towing hitch are still attached to the Manufactured Housing unit.

e. Perimeter Enclosure (02/16/2021)

i. Definitions

Perimeter Enclosure refers to a continuous wall that is adequately secured to the perimeter of the unit and allows for proper ventilation of the crawl space.

Skirting refers to a nonstructural enclosure of a foundation crawl space intended to ensure the crawl space is free from exposure to the elements and free from vermin, trash, and debris. Typically, but not always, it is a lightweight material such as vinyl or metal attached to the side of the Structure, extending to the ground (generally, not installed below frost depth).

ii. Standard

The space beneath Manufactured Homes must be properly enclosed. The perimeter enclosure must be a continuous wall that is adequately secured to the perimeter of the unit and allows for proper ventilation of the crawl space.

Skirting, when applicable, must extend from the bottom of the Manufactured Home to the permanent foundation, or to the perimeter enclosure, whichever is appropriate for the situation. This skirting must be permanently affixed to both the Manufactured Home and the foundation or perimeter enclosure, as appropriate.

iii. Required Analysis and Reporting

The Appraiser must notify the Mortgagee and report a deficiency of MPR or MPS if the Manufactured Housing unit is not properly enclosed or the skirting is not properly affixed and/or is not serving its intended purpose. The Appraiser must call for repairs or further inspection, when warranted.

f. HUD Certification Label (09/14/2015)

i. Definition

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Housing.

ii. Standard

Manufactured Homes must have an affixed HUD Certification Label located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the house as practicable. Etched on the HUD Certification Label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

iii. Required Analysis and Reporting

The Appraiser must report the HUD label number for all sections, or report that the HUD Certification Label is missing or that the Appraiser was unable to locate it.

g. Data Plate (09/14/2015)

i. Definition

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

ii. Standard

Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen.

iii. Required Analysis and Reporting

The Appraiser must report the information on the Data Plate within the appraisal, including the manufacturer name, serial number, model and date of manufacture, as well as wind, roof load and thermal zone maps.

If the Data Plate is missing or the Appraiser is unable to locate it, the Appraiser must report this in the appraisal and is not required to secure the Data Plate information from another source.

h. Flood Zone (09/14/2015)

The Appraiser must stop work and contact the Mortgagee if the Appraiser determines that a Manufactured Home is located in FEMA Flood Zones A or V. The Appraiser may continue to work on the assignment if the Mortgagee provides a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) or flood elevation certification. If the Appraiser is provided with a LOMA or LOMR that removes the Property from the flood zone, the Appraiser does not need to indicate that the Property is in a flood zone. If provided with an elevation certificate, the Appraiser must indicate the Property is in a flood hazard area on the appraisal report.

i. Additions to Manufactured Housing (09/14/2015)

If the Appraiser observes additions or structural changes to the original Manufactured Home, the Appraiser must condition the appraisal upon inspection by the state or local jurisdiction administrative agency that inspects Manufactured Housing for compliance, or a licensed structural engineer may report on the structural integrity of the manufactured dwelling and the addition if the state does not employ inspectors.

j. Measurement Protocols (09/14/2015)

The Appraiser must calculate GLA based on the overall length, including living areas and other projections that are at least seven feet in height. The Appraiser must not include bay windows, roof overhangs, drawbars, couplings or hitches in the length and width measurements.

k. Sales Comparison Approach for Manufactured Housing (11/02/2023)

i. Required Analysis and Reporting

The Appraiser must include a sufficient number of sales to produce a credible value. The Appraiser must include at least two Manufactured Homes in the Sales Comparison Approach (SCA) Grid.

ii. Exception

For a Manufactured Home certified based on the construction requirements of Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® program, the Appraiser must include at least two comparable sales with similar certification, when available. If fewer than two comparable MH Advantage® or CHOICEHome® sales are available, the Appraiser must use the most appropriate site-built comparable sales available, and must provide detailed justification to support the Appraiser's selection of comparable Properties and the adjustments made for dissimilarities to the subject Property.

A Manufactured Home certified based on the construction requirements of Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® programs must have Fannie Mae's MH Advantage® Sticker or Freddie Mac's CHOICEHome® Label affixed near the HUD data plate. The Appraiser must include photos of the Fannie Mae's MH Advantage® Manufacturer Sticker or Freddie Mac's CHOICEHome® Label in the appraisal report for the Manufactured Home to meet the documentation requirement.

l. Estimate of Cost for New Construction for Manufactured Housing (02/16/2021)

The Appraiser must apply the cost approach for New Construction for Manufactured Housing.

6. Condominium Projects

a. Definitions (10/15/2019)

Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, or detached, or are Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

Common Elements refer to the Condominium Project's common areas and facilities including underlying land and buildings, driveways, parking areas, elevators, outside

hallways, recreation and landscaped areas, and other elements described in the condominium declaration.

b. Required Analysis and Reporting (02/16/2021)

The Appraiser must report the appraisal on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*.

c. Site Condominium (08/19/2024)

i. Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse-style) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*.

d. Manufactured Housing Condominium Projects (09/14/2015)

i. Standard

Individual Manufactured Housing units in Condominium Projects are eligible for FHA insurance, on both HECM and forward Mortgages.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on Fannie Mae Form 1004C/Freddie Mac Form 70B, *Manufactured Home Appraisal Report*.

In addition to the requirements for analysis and reporting of the Manufactured Home, the Appraiser must inspect the Condominium Project and provide the project information data as an addendum to the appraisal report. Required data includes all data elements as found in the Project Information Section of Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*.

7. Valuation of Leasehold Interest

a. Definitions (09/14/2015)

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

b. Standard (09/14/2015)

Eligible Leasehold terms must meet the requirements included in Leasehold Interest.

c. Required Analysis and Reporting (01/24/2022)

The Appraiser must obtain a copy of the lease from the Mortgagee. The Appraiser must analyze and report the terms of the ground lease, including the amount of the Ground Rent, the term of the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a Fee Simple title by paying the value of the Leased Fee to the lessor, thereby canceling the Ground Rent), and if the Ground Rent can increase or decrease over the life of the lease term.

The Appraiser must estimate and report the value of the Leasehold Interest.

In valuing the Leasehold Interest, the Appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its Leasehold Interest.
- In the GRM income approach, the sales used to derive the GRM factor must be based on properties under similar Ground Rent terms (or be adjusted to similar Ground Rent terms).
- In the sales comparison analysis, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section of the Sales Comparison Approach (SCA) Grid.

8. Unimproved Property Appraisal

a. Definition (09/14/2015)

Unimproved Property Appraisal refers to the valuation of an interest in land without human made Structures.

b. Standard (09/14/2015)

An Unimproved Property Appraisal may be warranted when:

- the Property does not include building improvements;

- the prior improvements on the Property were demolished;
- the improvements are in such deteriorated condition as to provide no Contributory Value to the Property; or
- condemnation proceedings by the local authority have acquired the improvements in part or in their entirety.

c. Required Analysis and Reporting (09/14/2015)

The Appraiser must provide a written narrative format or a commercially available reporting form. The appraisal report must include, at minimum, the following:

- property address;
- legal description;
- owner of record;
- occupancy;
- assessment and tax information;
- property rights appraised;
- site size;
- zoning;
- highest and best use;
- shape;
- topography;
- drainage;
- availability of utilities;
- if it is located within a FEMA-designated SFHA;
- a Sales Comparison Approach (SCA) Grid, including:
  - detailed information on at least three comparable sales;
  - a quantitative comparison of those property attributes to the subject; and
  - a comparison of the number of comparable unimproved properties sold with the number of offered and listed for sale to determine supply and demand, absorption rate, and other market data required so that the report is not misleading;
- certification and limiting conditions as included in Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report* (*URAR*); and
- any other forms and documentation necessary to comply with USPAP Standard 2.

When completing the SCA Grid, the Appraiser must compare and appropriately adjust the sales of comparable unimproved building lots or sites for differences in location, size, zoning, utility connection or availability of utility connection, site improvement and any other pertinent factors. The Appraiser must then reconcile the adjusted sales into a value conclusion.

The Appraiser must calculate and extract any costs to be incurred from razing the existing improvements and cleaning up the site from the value of the supporting land to arrive at a final conclusion of value of the site as if vacant and ready to be put to its highest and best use.

9. Update of Appraisal (09/14/2015)

Appraisers may perform an update of a previously completed appraisal using the Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report,* when requested by the Mortgagee.

The Appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form, which includes an exterior inspection of the subject Property from, at least, the street; and research, analyze and verify current market data to determine whether the Property has or has not declined in value since the effective date of the appraisal report being updated.

If the Appraiser concurs with the original appraisal report and determines that the value has not declined, the Appraiser must indicate this on the form, provide any necessary comments, and provide a photo of the front of the subject Property taken from the public street. If the Appraiser does not concur with the original data report or the Property Value has declined, the Appraiser must indicate this on the form and a photo is not required.

10. RESERVED FOR FUTURE USE

RESERVED FOR FUTURE USE

Previous content from this section is deleted and this section is reserved for future use.

11. Programs and Products

a. Section 248 Indian Land Program (09/14/2015)

i. Property Rights to be Appraised

The Appraiser must identify the interest to be appraised based on the type of ownership.

(A) Fee Simple Unrestricted

Fee Simple Unrestricted ownership refers to ownership in Real Property that may be bought, sold and transferred between Native American and non-Native American purchasers without review by the tribe or the Bureau of Indian Affairs (BIA).

(B) Tribal Trust Lands, Restricted Trust Land

(1) Standard

The FHA Section 248 program insures Mortgages on houses that are located on Indian tribal trust land or Restricted Trust Lands. For these Properties, leased ownership of the underlying land remains with the tribe and will be subject to a long-term, 50-year ground lease (or a 25-year lease with a 25-year renewable term).

(2) Required Analysis and Reporting

The Appraiser must determine the value for the Leasehold Estate using the analysis and reporting guidance on Leasehold.

ii. Access to Property

Tribally owned and maintained streets and utilities are considered publicly owned. The Appraiser must report Easements and maintenance agreements for nonpublic, common ownership interests that affect the access and utility of the Property.

iii. Approaches to Value

The Appraiser must be familiar with the applicable ownership and use restrictions and develop a credible value for the Property. The supply of comparable sales and rental transactions varies by site and by tribe. Until sufficient sales exist on a reservation or within the specific Indian area to provide a reasonable sales comparison approach for determining the value of tribal trust Leaseholds or allotted land sales, the Appraiser must rely on other value indicators. The appraisal process must be documented more thoroughly than a typical market appraisal. USPAP Standards 1 and 2 are effective in allowing the Appraiser to "correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal." In addition, "in reporting the results of a Real Property appraisal an appraiser must communicate each analysis, opinion and

conclusion in a manner that is not misleading." An appraisal on trust land may rely more on the cost approach or data developed from other tribes. HUD will accept the report if the Appraiser has documented the research, information developed and conclusions clearly for the intended users to understand.

iv. Cost Approach to Value

The cost approach is often the primary indication of value based on the unique nature of land rights in the reservation. The value of the site as vacant will depend on the property rights held by an individual. If the Appraiser's analysis indicates that the value of the site may be zero or a small Leasehold value, the Appraiser must enter this information in the "Cost Approach" section of the form and enter the statement "subject is on Tribal Trust Land with annual rent not capitalized" in the "Comments" section. If a market exists and an interest in the land was purchased, the value is estimated via traditional cost approach methods.

(A) Cost Approach for New Construction

The following are instructions specific to New Construction on tribal lands.

In addition to including the cost of water, septic, and any other onsite costs in the cost approach, for lands within the reservation the Appraiser may provide an allowance for off-site development costs. The lesser of actual pro-rated costs or up to 15 percent of the cost of the construction of the subject house may be added for off-site infrastructure associated with development of the subject lot. This policy applies principally to New Construction where such charges are assessed by tribally approved entities, such as housing entities or housing authorities, or agreements with other federal or local government bodies for providing power, utilities, sewer, water or road construction. The costs to bring utilities, including public water, sewer, electricity and telephone, to sites represent significant development costs. The traditional tract development of residential houses may not be a part of the local culture. Therefore, the utility costs to hook up to any form of a public system in a more rural area can exceed local standards.

In remote areas, the construction costs in construction cost manuals may have to be adjusted for transportation, labor or other costs not included in the basic estimate. Architect fees are not typically reflected in the base building costs. Due to special circumstances, the normal allocation for this fee may not automatically reflect the above actual cost. The Appraiser must provide a supporting explanation for the adjustments to the construction costs.

(B) Cost Approach for Existing Construction

Where market sales are limited, FHA requires the cost approach to be completed on all tribal trust appraisals, including a credible estimate of depreciation. In addition to developing the cost approach, the Appraiser must report the following:

- the name of the cost service;

- the source and date, if electronic version. Upload as an exhibit into the report when available;
- the page numbers of cost tables or factors, if paper version. The reviewer or reader must be able to replicate;
- all current multipliers applicable to locale and time as updated and published by the cost service used; and
- depreciation due to normal aging, which may be derived from the tables in the cost service book.

A computer-generated cost analysis is acceptable in place of the above as long as the printout contains sufficient information to verify that all significant property features have been properly addressed in the cost analysis.

v. Sales Comparison Approach to Value

The Appraiser must follow the Sales Comparison Approach instructions. In addition to the typical data sources the Appraiser must obtain sales information from the local tribal or BIA realty office if available. The Appraiser may consider sales from other reservations within the region if appropriate.

The order of selection preferences for sales depends upon the type of interest in the land being appraised:

- tribal trust Leasehold sales (market sales between tribal members);
- sales of allotted land trust between tribal members;
- Fee Simple within the reservation (residual value of the improvements by adjusting out the land contribution); or
- Fee Simple proximate to the reservation.

The Appraiser must report the property rights in the "Ownership" line of the SCA Grid and apply an appropriate adjustment (if any). In addition, the Appraiser must explain the differences in ownership rights of the comparable properties as compared to the subject, and the basis for any adjustment.

vi. Income Approach to Value

If the Appraiser determines that this approach can be credibly completed, refer to income approach. If the Property includes a rental unit(s), the Appraiser must provide an estimate of monthly rent for each unit and note if the rent is limited to the tribal sub-market.

vii. Final Reconciliation of Value

The Appraiser must follow the final reconciliation of value instructions. Where market information is limited and the support for the sales comparison analysis is weaker, the Appraiser may need to place greater consideration on the cost approach.

b. Section 247 Hawaiian Home Lands Program (09/20/2021)

Due to the nature of the title and property rights, the Appraiser must develop the cost for both Existing and New Construction. When appropriate, the Appraiser must attempt to apply the income and sales comparison approaches.

The Appraiser must include the following language in the appraisal report: "*The value defined for this appraisal is not 'Market Value' as defined in the standard documents of form appraisal reports. This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions for Department of Hawaiian Home Lands (DHHL) properties*."

The Appraiser must develop a cost approach from a published cost service in addition to developing the cost approach described. The appraisal report must include:

- photocopies of all pages used to derive the cost figures, except as noted below;
- application of all current multipliers necessary and published by the cost service;
- no marketing expense to the cost analysis of a DHHL property appraisal because these Properties are not freely marketable;
- entrepreneurial venture may only be included if reasonable profit and overhead are not already included in all costs; and
- depreciation due to normal aging, which may be derived from the tables in the cost service book. Depreciation from incurable external or functional obsolescence should be based on verifiable market extractions, by paired-sales analysis and capitalized rent loss.

The Appraiser may use a computer-generated cost analysis provided it contains sufficient information to verify that all significant property features have been properly addressed in the cost analysis. Accordingly, the Appraiser will not be required to supplement a computer-generated cost analysis with photocopies from the cost service book.

c. Standard 203(k) and Limited 203(k) Rehabilitation Mortgages (09/14/2015)

The Appraiser may be asked to perform two separate types of valuation by the Mortgagee for Standard 203(k) and Limited 203(k) Rehabilitation Mortgages. The Mortgagee may order both reports from the same Appraiser or select two different Appraisers for the two valuation assignments.

If a Mortgagee requires both an as-is and an after-improved value of the Property, the case will require two separate appraisal assignments and reports:

- an analysis to provide the as-is value; and
- a separate analysis performed under the hypothetical condition that the repairs have been completed.

i. Appraisal of the Property "As Is"

(A) Standard

Assignment conditions for this appraisal are the same as in all FHA appraisal assignments, except that the value of the Property is to be estimated "as is" even though the Property may not meet the Property Acceptability Criteria required for FHA-insured Properties.

(B) Required Analysis and Reporting

The Appraiser must provide an analysis and report of the value of the subject Property "as is." If the Appraiser observes property conditions that do not meet the Property Acceptability Criteria, the Appraiser must report those items or conditions and note that the Property, in its "as is" condition, does not meet the Property Acceptability Criteria for an FHA-insured Mortgage. This appraisal must not be rendered "subject to repairs."

ii. After Improved Value of the Property

(A) Definition

After Improved Value refers to the value as determined by the Appraiser based on a hypothetical condition that the repairs or alterations have been completed.

(B) Standard

The Appraiser must provide an "After Improved Value." The Appraiser must make the appraisal "subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed."

(C) Required Analysis and Reporting

The Appraiser must review the 203(k) Consultant's Work Write-Up or the contractor's proposal and Cost Estimates. The Appraiser must notify the Mortgagee of any health and safety issues in the Property that are not addressed in the Work Write-Up or proposal. When the Consultant or contractor has modified the Work Write-Up or proposal, the Appraiser must complete the appraisal based on the final Work Write-Up or the contractor's final proposal and Cost Estimates.

The Appraiser must include the Work Write-Up or proposal as an exhibit to the appraisal report.

d. Special Energy-Related Building Components (01/06/2018)

i. Special Energy Components

(A) Definition

A Special Energy System refers to any addition, alteration, or improvement to an existing or new Structure that is designed to utilize wind, geothermal, or solar energy to produce energy to support the habitability of the Structure.

(B) Standard

Active, passive, and photovoltaic solar energy systems are permitted in this program. Solar collectors must be located where they will be free from natural or man-made obstructions to the sun. Special Energy Systems not part of the real estate must not be included in the appraised value.

(C) Required Analysis and Reporting

The Appraiser must analyze and report the local market acceptance of special energy-related building components and equipment, including solar energy components, high-energy efficiency housing features and components, geothermal systems, and wind powered components.

ii. Other Energy-Related Building Components

(A) Definition

Other Energy Related Building Components refer to components in the Property designed to reduce energy requirements.

(B) Required Analysis and Reporting

The Appraiser must note which features are installed in a house and calculate how each component affects the value of the Property.

iii. Measurement and Reporting of Contribution to Value

(A) Definition

Contributory Value refers to the change in the value of a Property as a whole, whether positive or negative, resulting from the addition or deletion of a property component.

(B) Standard

Measurement of the Contributory Value of the component is accomplished by the application of techniques based on one or more of the recognized three approaches to value: cost approach, income approach, and sales comparison approach. Each of these

recognized methods and techniques requires the Appraiser to collect, verify, and analyze all information necessary for credible assignment results.

(C) Required Analysis and Reporting

The Appraiser must apply all appropriate methods and techniques necessary for credible assignment results.

(D) Sales Comparison Based Extraction Method

If there is sufficient data based on direct sales comparison to produce credible results, the Appraiser must calculate the adjustment and explain the methodology and analysis supporting the method and results in the appraisal report. The Appraiser must apply the extracted adjustment to the comparable sales and include the reasoning that supports the analyses, opinions, and conclusions in the report.

If there is insufficient data to perform a matched pairs analysis the Appraiser must analyze and report one of the approaches below to calculate an appropriate adjustment.

(E) Cost Approach Based Method

The Appraiser must include the details of the item(s) being valued and measure the Contributory Value of the component(s) to the whole by calculating the cost of the item less accrued depreciation. The Appraiser must include consideration of physical depreciation, functional obsolescence (including superadequacies) and external obsolescence in the estimate of accrued depreciation and apply the resulting calculation of the Contributory Value to the comparable sales.

(F) Income Approach Based Methods

(1) Gross Rent Multiplier Method

If the Property is located in a market where the Appraiser can calculate a GRM, and rental data for properties with similar special energy components is available, the Appraiser must extract an adjustment relevant to the rental value of the feature from the analysis of those similar rentals and apply the appropriate GRM factor to calculate an adjustment for the comparable sales.

(2) Net Income/Savings Capitalization Method

The Appraiser may use an income approach solution based on capitalization of savings attendant to the alternative energy source. The Appraiser may estimate the present value of the future benefit using the discounted cash flow technique or commercially available tools; however, the Appraiser must be competent to use them and provide an explanation of the analysis.

(G) Reconciliation of the Approaches

The Appraiser may elect to utilize some of the tools and training available from professional organizations and energy-related firms. The Appraiser must provide a credible analysis and reconciliation explaining the methodology and support for the adjustment.

As related to special building components, the Appraiser must provide an analysis of the information and conclusions supporting the application of adjustments.

The Appraiser must reconcile all the methods utilized and resolve to a final opinion of the adjustment, analyzing both the quantity and quality of available data.

iv. Property Assessed Clean Energy

(A) Definition

Property Assessed Clean Energy (PACE) refers to programs that may provide an alternative means of financing energy and other PACE-allowed improvements for residential Properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government, rather than paid directly by the Borrower to the party providing the PACE financing.

Generally, the PACE obligation is also secured in the same manner as a special assessment tax against the Property. In the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation will continue with the Property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished.

(B) Required Analysis and Reporting

The Appraiser must review the sales contract and property tax records for the Property to determine the amount of any outstanding PACE obligation:

- if the Mortgagee notifies the Appraiser that the subject Property is subject to a PACE obligation;
- when the Appraiser observes that the property taxes for the subject Property are higher than average for the neighborhood and type of dwelling; or
- when the Appraiser observes energy-related building components or equipment or is aware of other PACE-allowed improvements during the inspection process.

The Appraiser must report the outstanding amount of the PACE obligation for the subject Property.

Where energy and other PACE-allowed improvements have been made to the Property through a PACE program, the Appraiser must analyze and report the impact on the value of the Property from the PACE-related improvements subject to the PACE assessments being extinguished.

e. HUD Real Estate Owned Properties (08/19/2024)

i. Definition

A HUD REO Property, also known as a HUD home or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure on an FHA-insured Mortgage or other means of acquisition, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee.

ii. Standard

An appraisal may be ordered on a HUD REO Property as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(A) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD REO Property.

(B) Intended Use of Appraisal

The intended use of the appraisal for a HUD REO Property is as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(C) Intended User

The intended user of an appraisal of a HUD REO Property is HUD/FHA or its contractors.

iii. Required Analysis and Reporting

(A) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. The Appraiser must describe any differences found between the information contained in the Property Condition Report (PCR) and the Appraiser's observations. The Appraiser must support this description with photographs when warranted.

(B) Utilities - Mechanical Components

If the utilities are off at the time of inspection, the Appraiser must ask to have them turned on and complete all requirements under Utilities – Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

(C) Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

When considering sales to be utilized as comparables, the Appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm's length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate Market Value, so REO sales, short sales and other non-arm's length transactions must not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the Appraiser must provide additional explanation and support in the "Analysis" section of the sales comparison approach.

Transfers to a Mortgagee or entity that owns the Mortgage by deed of trust, through foreclosure sale or sheriff's sale, are not acceptable as comparable sales.

Appraisers must exercise due diligence and care in the research and validation of REO sales to ensure similarity to the subject, especially in physical condition.

(D) Appraisal Conditions

The Appraiser must provide an analysis and report of the value of the subject Property "as is." The appraisal report must include the applicable property specific appraisal reporting form, all required exhibits, and a copy of the PCR.

For Manufactured Housing, the Appraiser must **not** require a certification that the foundation complies with the PFGMH.

(E) Extraordinary Conditions

The as-is value can be impacted by extraordinary conditions. If the Property has an illegal use or an extraordinary condition, the Appraiser must estimate the cost to bring the Property into compliance with zoning or typical marketability. The Appraiser must report whether any legal non-conforming use is allowed. The Appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances.

(F) Statement of Insurability

The Appraiser must include a Statement of Insurability in the "Comments" section of the appraisal report.

(1) Insurable

The Appraiser must state that the Property is insurable if, at the time of the appraisal, the Property meets MPR and MPS without needing repairs.

(2) Insurable with Repair Escrow

If the Property requires no more than $10,000 in repair, the Appraiser must state that the Property is insurable with a repair escrow.

(3) Uninsurable

If the cost of repairs is greater than $10,000, the Appraiser must state that the Property is uninsurable.

(G) Submitting the Appraisal

The submission of the appraisal report and data is uploaded in HUD's P260 web-based internet portal or subsequent system.

The Appraiser must obtain a completed copy of the PCR from the contractor and submit the PCR with the appraisal report.

(H) Claims Without Conveyance of Title Properties

(1) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD Claims Without Conveyance of Title (CWCOT) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for calculating the Commissioner's Adjusted Fair Market Value (CAFMV) (24 CFR § 203.368).

(3) Intended User

FHA is the intended user of a CWCOT appraisal.

(4) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. If the Appraiser cannot enter the Property, the Appraiser may perform the valuation based on an exterior-only inspection on the Fannie Mae Form 2055/Freddie Mac Form 2055, *Exterior-Only Inspection Residential Appraisal Report*, dated March 2005, or the Fannie Mae Form 1075/Freddie Mac Form 466, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*, for a condominium Property. The Appraiser must indicate that the Property could not be entered and identify the sources of the factual property data employed by the Appraiser in determining the value.

(5) Appraisal Conditions

CWCOT Properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

(I) Pre-Foreclosure Sale Program

(1) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD Pre-Foreclosure Sale (PFS) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for determining the list price of a HUD PFS Property (24 CFR § 203.370).

(3) Intended User

FHA is the intended user of a PFS appraisal.

(4) Sales Comparison Approach

Sales selection requirements for PFS are the same as the Sales Comparison Approach in the REO section.

(5) Appraisal Conditions

PFS Properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

iv. Appraisals for HUD Real Estate Owned Properties Purchased with a New FHA-Insured Mortgage

A new appraisal must be prepared for all transactions involving the purchase of a HUD REO Property with a new FHA-insured Mortgage. The appraisal must be prepared in accordance with HUD Appraisal protocols except as noted.

(A) Property Meets HUD's Minimum Property Requirements

If the appraisal reveals that the Property meets HUD's MPR, the Appraiser must complete the appraisal report "as is."

(B) Property Requires Repairs

If the appraisal reveals that the Property requires repairs in order to meet HUD's MPR, the Appraiser must provide an estimate of the cost to cure and complete the report "Subject to the following repairs or alterations on the basis of the hypothetical condition that the repairs or alterations have been completed."

12. Mixed Use One- to Four-Unit Single Family Properties

a. Definition (09/09/2019)

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space.

b. Required Analysis and Reporting (09/09/2019)

The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include business valuation or the value of Personal Property or business fixtures in the appraisal.

The Appraiser must provide measurements and calculations of the building area on the building sketch to show what portion of the Property is allocated to residential use, and what portion is allocated to nonresidential use.

The Appraiser must provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential Property.

E. TITLE I INSURED PROGRAMS

1. Direct and Dealer Loan Process for Property Improvement Loan Program

Loans insured under FHA's Property Improvement Loan program are categorized by either of two origination processes: Direct Loans or Dealer Loans.

A Dealer refers to, in the case of Property Improvement Loans, a seller, contractor, or supplier of goods or services. A Dealer can be used in either the Direct Loan or Dealer Loan processes.

a. Direct Loan (05/09/2022)

i. Definition

A Direct Loan process refers to where the Borrower applies directly to the Lender or its sponsored TPO for the Loan without assistance from a Dealer, contractor, or third party that has a financial interest in the loan transaction.

A Dealer's recommendation of a Lender to a Borrower is not considered a Dealer Loan.

ii. Standard

The credit application, signed by the Borrower, must be filled out by the Borrower or by a person acting at the direction of the Borrower who is not a Dealer, contractor, or third party that has a financial interest in the loan transaction.

b. Dealer Loan (05/09/2022)

i. Definition

A Dealer Loan process refers to a Loan where a Dealer assists the Borrower in preparing the credit application or otherwise assists the Borrower in obtaining the Loan from the Lender. This may include completing the loan application for the Borrower, and collecting any other documentation or information as required by the Lender that is necessary to support the lending decision.

When the seller, contractor or supplier of goods and services does not assist the Borrower in obtaining the Loan from the Lender, then the transaction is not considered a Dealer Loan.

ii. Standard

The credit application, signed by the Borrower, is filled out by the Borrower with assistance from the Dealer, contractor, or third party that has a financial interest in the loan transaction.

iii. Dealer Approval and Monitoring

The Lender is responsible for approving Dealers prior to the Dealer's participation in the Dealer Loan process. The Lender must complete an investigation of the Dealer and document the Findings for approval before the Dealer may begin originating Title I Loans through the Lender.

(A) Dealer Eligibility for Participation in HUD Programs

The Dealer must not be suspended, debarred, or excluded from participation in FHA programs as listed in an LDP, or SAM Excluded Parties List, or Credit Alert Verification Reporting System (CAIVRS).

The Dealer, if acting as a Lender, must comply with all laws, rules, and requirements applicable to the loan transaction, including full compliance with the requirements applicable to the following under the purview of the Consumer Financial Protection Bureau (CFPB):

- Truth in Lending Act (TILA)
- Real Estate Settlement Procedures Act (RESPA)
- Fair Credit Reporting Act (FCRA), and the Equal Credit Opportunity Act (ECOA), as implemented by Regulation B (12 CFR Part 1002)

(B) Net Worth Requirement

A Dealer must have and maintain a net worth of not less than $32,000 in assets acceptable to HUD.

The following asset types and sources are not eligible for inclusion toward the minimum net worth:

i. Any assets of the Dealer that are pledged to secure obligations of another person or entity.

ii. Any asset due from either officers or stockholders of the Dealer or related entities, in which the Dealer's officers and stockholders have a personal interest (unrelated to their position as an officer or stockholder). "Personal interest" refers to a relationship between the Dealer and a person or entity in which that specified person (e.g., spouse, parent, grandparent, child, brother, sister, aunt, uncle, or in-law) has a financial interest in or is employed in a management position by the Dealer.

iii. Any investment in related entities in which the Dealer's officer or stockholders have a personal interest unrelated to their position as an officer or stockholder or the Dealer.

iv. That portion of an investment in joint ventures, subsidiaries, Affiliates and/or other related entities which is carried at a value greater than equity, as

adjusted. "Equity as adjusted" means the book value on the books of the related entity reduced by the amount of unacceptable assets carried by the related entity.

v. All intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, etc. except unamortized servicing costs carried at a value established by an Arm's Length Transaction and presented in accordance with Generally Accepted Accounting Principles (GAAP).

vi. That portion of an asset not readily marketable and for which appraised values are very subjective carried at a value in excess of a substantially discounted appraised value.

vii. Any asset which is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes.

(C) Business Experience of the Dealer

All Dealers must have demonstrated business experience as a Property Improvement contractor or supplier of goods and services. The Lender must evaluate the Dealer on the basis of experience and approve only those Dealers that the Lender considers to be reliable, financially responsible, and qualified to satisfactorily perform their contractual obligations.

(D) Approval Procedure for the Dealer

Lenders must follow the procedures listed below to approve a Dealer to participate in the Title I Property Improvement Loan program.

(1) Application Form

A prospective Dealer must complete form HUD-55013, *Dealer/Contractor Application: Title I Property Improvement and Manufactured Home Loans*. The Lender must retain form HUD-55013 and all supporting documentation in the Dealer's file for each Dealer.

(2) Financial Statement

The Lender must obtain and review the Dealer's most recent annual financial statement to confirm that the Dealer meets HUD's minimum net worth requirement. The financial statement need not be prepared by a licensed accountant, but the Lender must take into consideration that the financial statement must be prepared by someone who is independent of the Dealer and is qualified by education and experience to prepare such statements.

(3) Credit Report

A Lender must obtain and evaluate a commercial credit report on the dealership. The Lender must also obtain and evaluate an individual credit report on the Principal Owner(s) of the dealership to ensure that the owner(s) does not exhibit a disregard for credit.

(4) Required Documentation of Approval

Upon completion of the Lender's thorough review and investigation of a Dealer, an authorized official of the Lender must sign the bottom of form HUD-55013 to document the Lender's decision to approve the Dealer. The Lender must retain the approved application and all supporting documentation obtained during the application review.

(5) Annual Renewal

A Dealer is approved for a period of one year. To retain their approval status with the Lender, a Dealer must provide the Lender with a new form HUD-55013 and their most recent financial statement.

In addition to the steps outlined above for the initial approval, the Lender must also evaluate its experience with the Dealer during the prior year. This evaluation must address performance factors such as:

- the Dealer's approval and rejection rates;
- the collection history for Loans purchased from the Dealer; and
- the Dealer's complaint resolution practices.

(E) Monitoring the Dealer

The Lender is responsible for supervising and monitoring each approved Dealer's activities with respect to Loans insured under Title I.

(1) Standard

As part of the monitoring duties, Lenders are required to visit each approved Dealer's place of business at least once every six months to review their Title I performance and compliance. Lenders must take prompt action to resolve any dealer deficiencies discovered. Lenders must verify that Title I Dealers/contractors meet and maintain a net worth in assets that is acceptable to the Secretary. Lenders must maintain a file on each approved Dealer which contains the executed dealer approval for and supporting documentation required under 24 CFR § 201.27(a)(2).

(2) Requirements

In addition to the initial and annual dealer approval reviews, the Lender must monitor each approved Dealer's activities with respect to Loans insured by HUD on an ongoing basis addressing the following review components.

(a) Quality of Borrower Applicants

The Lender must monitor the quality of applicants submitted by the Dealer. If a Dealer's rejection rate is too high, the Lender should meet with the Dealer to review the Dealer's marketing and borrower qualification practices.

(b) Quality of Required Loan Documentation

The Lender must monitor the quality and completeness of the loan documentation submitted by the Dealer.

(c) Dealer Advertising

The Lender must monitor dealer advertising and other marketing material to ensure against misleading or false claims. The Lender must ensure that advertising and other marketing material does not include prohibited practices or convey the impression that the Dealer has a special relationship or affiliation with the federal government. The Dealer must include a fair housing poster in its marketing materials, and display in any office that deals with Borrowers and the general public. Lenders are prohibited from advertising or marketing in a way that restricts lending services to persons on a protected basis or that conveys exclusion of persons on a protected basis. Copies of dealer advertisements and other marketing materials issued by the Dealer must be maintained in the Dealer's file with the other required documents.

(d) Borrower Complaints against Dealers

The Lender must monitor complaints received on Loans originated by the Dealer. Documentation for all complaints and their resolution must be maintained in the Dealer's file. Particular attention should be focused on the quality of service offered, whether warranties are honored in a timely manner, and the general manner in which the Dealer resolves complaints and conducts their business.

(e) Irregular Business Practices

All credible allegations of irregularities (inducements, disallowed payments to the Borrower, false statements, etc.) must be promptly reported to either

HUD's Office of the Inspector General located in the nearest HUD Field Office or HUD's Quality Assurance Division (QAD) at:

U.S. Department of Housing and Urban Development
Quality Assurance Division
451 Seventh St., SW
Washington, DC 20410

(f) Material Changes of Dealer

A Lender must require each approved Dealer to provide written notification of any material change in their trade name, places of business, type of ownership, type of business, or principal individuals who control or manage the business. The Dealer must furnish such notification to the Lender within 30 Days after the date of any material change.

Upon discovery of any material change, the Lender must determine that the eligibility of the Dealer has not changed.

(g) Dealer's File

The Lender is to maintain a separate file for each approved Dealer. The file is to include the initial application and documentation used for approval and any information regarding the Lender's experience with Title I Loans involving the Dealer. Each file must consist of information regarding borrower Default rates, records of inspections of properties delivered and installed by the Dealer, copies of letters concerning borrower complaints and their resolution, material changes, copies of dealer advertisements and other marketing materials, and records of the Lender's visits to the Dealer's premises.

(F) Termination of the Dealer

A Dealer's approval will be terminated if a Dealer does not satisfactorily perform its contractual obligations to Borrowers, does not comply with Title I program requirements, or is unresponsive to inquiries pertaining to Lender supervision and monitoring requirements. The Lender is required to notify HUD immediately with written documentation of the reason(s) for termination. A Dealer whose approval is terminated as a result of these circumstances may not be re-approved by a Lender without prior written approval from HUD.

Notices of termination for cause and requests for permission to re-approve a terminated Dealer must be in writing and sent to HUD's QAD. A Lender may, at its discretion, terminate the approval of a Dealer for other reasons at any time.

2. Property Improvement Loan Program

The Title I Property Improvement Loan Program Origination/Processing through Post-closing and Insurance sections are applicable to all Property Improvement Loans insured under Title I of the National Housing Act. The Lender must fully comply with all of the following standards and procedures for obtaining FHA loan insurance on a Loan.

HUD insures private Lenders against loss on Property Improvement Loans they make. Both large and small improvements can be financed. Loans on Single Family homes may be used for alterations, repairs and site improvements. Loans on multifamily structures may be used only for building alteration and repairs. A property owner may apply at any Lender that is approved to make Title I Loans.

a. Origination/Processing (05/25/2025)

i. Application Packages and Disclosures

(A) Borrower Eligibility

(1) Definition

Borrower refers to one who applies for and receives a Loan insured under this part. The term may also include any co-maker or Co-signer or any assumptor who is obligated for the repayment of a loan obligation insured under this part.

(2) Contents of the Loan Application Package

The Lender must maintain all information and documentation that is relevant to its approval decision in the Lender's case binder. All information and documentation that is required in this Handbook 4000.1, and any incidental information or documentation related to these requirements, is relevant to the Lender's approval decision.

If, after obtaining all documentation required below, the Lender has reason to believe it needs additional support for the approval decision, the Lender must obtain additional explanation and documentation, consistent with information in the case binder, to clarify or supplement the information and documentation submitted by the Borrower.

(a) Maximum Age of Loan Application Documents

Documents used in the origination and underwriting of a Loan may not be more than 120 Days old at the Disbursement Date. Only documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or Tax Returns, may be more than 120 Days old at the Disbursement Date.

For counting purposes, Day one is the Day after the effective or issue date of the document, whichever is later.

(b) Handling of Documents

Lenders, including sponsored TPOs, must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through, the equipment of unknown or Interested Parties, including the Borrower, the Dealer or its agent, or sponsored TPOs.

The documents referred to in this section are Lender-generated direct verification documents, which are used to verify and supplement documentation submitted by the Borrower at application. These verifications are to be sent directly from the Lender to the requested responder to obtain independent, written verification of employment, income, rent, or financial accounts.

(i) Information Sent to the Lender Electronically

The Lender must authenticate all documents received electronically by examining the source identifiers (e.g., fax banner header or the sender's email address) and contacting the source by telephone to verify the document's validity. The Lender must document the name and telephone number of the individual with whom the Lender verified the validity of the document.

(ii) Information Obtained via Internet

The Lender must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The Lender must verify that the website exists.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

(iii) Confidentiality Policy for Credit Information

Lenders must not divulge sources of credit information, except as required by a contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with:

- Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), Public Law 91-508;
- the Privacy Act, Public Law 93-579;

- the Financial Privacy Act, Public Law 95-630; and
- the Equal Credit Opportunity Act (ECOA), Public Law 94-239 and 12 CFR Part 202.

(c) Signature Requirements for All Application Forms

All Borrowers must sign and date the Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*), and form HUD-92900-TI, *HUD Addendum to the Uniform Residential Loan Application for Title I Loans*.

The application may not be signed by any party who will not be on the Note.

A Power of Attorney (POA) may not be used unless the Lender verifies and documents that all of the following requirements have been satisfied:

- For military personnel, a POA may only be used when all of the following apply:
  - when the servicemember is on overseas duty or on an unaccompanied tour;
  - when the Lender is unable to obtain the absent Borrower's signature on the application by mail or fax; and
  - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower.
- For incapacitated Borrowers, a POA may only be used:
  - where a Borrower is incapacitated and unable to sign the application; and
  - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower.

For guidance on use of POA on closing documents refer to Use of Power of Attorney at Closing.

(d) Prohibition on Documents Signed in Blank

Lenders are not permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.

(e) Policy on Use of Electronic Signatures

(i) Definition

An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

(ii) Use of Electronic Signatures

An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for loan insurance, unless otherwise prohibited by law.

Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.

*(iii)*Electronic Signature Performance Standards

The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, Lenders choosing to use electronic signatures must fully comply with the Performance Standards.

The Electronic Signatures in Global and National Commerce Act (ESIGN Act) Compliance and Technology

A Lender's electronic signature technology must comply with all requirements of the ESIGN Act, including those relating to disclosures, consent, signature, presentation, delivery, retention and any state law applicable to the transaction.

Third Party Documents

Third Party Documents refer to those documents that are originated and signed outside of the control of the Lender, such as the sales contract.

FHA will accept electronic signatures on Third Party Documents included in the case binder for loan insurance endorsement in accordance with the ESIGN Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

Authorized Documents

Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the Lender complies with the Performance Standards.

- **Loan Insurance Endorsement Documents:** Electronic signatures will be accepted on all documents requiring signatures included in the case binder for loan insurance.

- **Servicing and Loss Mitigation Documentation:** Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured Loans.

- **FHA Insurance Claim Documentation:** Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-637, *Title I Claim for Loss*.

Associating an Electronic Signature with the Authorized Document

The Lender must ensure that the process for electronically signing authorized documents provide for the document to be presented to the signatory before an electronic signature is obtained. The Lender must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.

Intent to Sign

The Lender must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the ESIGN Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes:

- identifying the purpose for the Borrower signing the electronic record;
- being reasonably certain that the Borrower knows which electronic record is being signed; and
- providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.

Intent to use an electronic signature may be established by, but is not limited to:

- an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature;
- an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or
- a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.

Single Use of Signature

Lenders must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.

This provision does not apply to documents signed by Lender employees or Lender contractors provided the Lender obtains the consent of the individual for the use of their electronic signature. The Lender must document the Borrower's consent.

Authentication - Definition

Authentication refers to the process used to confirm a signer's identity as a party in a transaction.

Authentication - Standard

Before a Lender reports the Loan for insurance, the Lender must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to:

- national commercial credit bureaus;
- commercially available data sources or services;
- state motor vehicle agencies; or
- government databases.

The Lender must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.

Attribution - Definition

Attribution is the process of associating the identity of a signer with their signature.

Attribution - Standard

The Lender must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.

The Lender must use one of the following methods, or combinations of methods, to establish attribution:

- selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process;

- delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method;
- knowledge base authentication using "out of band/wallet" information;
- measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement, together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or
- public key cryptography.

Credential Loss Management

Lenders must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable:

- maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password;
- ensuring that identification code and password issuances are periodically checked, recalled, or revised;
- following loss management procedures to electronically deauthorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls;
- using transaction safeguards to prevent unauthorized use of passwords or identification codes; or
- detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.

(f) Required Documentation and Integrity of Records

Lenders must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed. Lenders must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.

If changes to the document are made, the electronic process must be designed to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them.

The Lender's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an

electronically signed document refers to the electronic record that is designated by the Lender or holder as the controlling reference copy.

(3) Credit Application and Required Supporting Documentation

The Lender must obtain a completed *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-TI from the Borrower in order to begin the origination process.

(a) Interview with Borrower

The Lender must conduct a telephone or face-to-face interview with the Borrower and any co-maker or Co-signer to resolve any material discrepancies, and ensure that the information, including listed debts and obligations, is accurate and complete.

(b) Contractor Certification

If the Loan is originated as a Dealer Loan, the person selling the improvements must sign the Note to Salesperson certification provided on form HUD-92900-TI.

(c) Credit Application Name Requirements

(i) Standard

All credit applications *must* be executed in the legal names of one or more individuals on the application.

Credit applications from a corporation, partnership, sole proprietorship, nonprofit or trust (including living or non-revocable trusts) are not permitted under Title I.

A multifamily dwelling (two or more units) may be owned by a corporation, partnership, or trust with prior approval from the Secretary. Loan applications from a corporation, partnership, or trust must be in the name of the entity and also be in the name of one or more individuals.

(ii) Required Documentation

The Lender must include a statement that it has verified the Borrower's identity using a valid government-issued photo identification at or prior to closing the Loan, or the Lender may choose to include a copy of such photo identification as documentation.

(d) Disclosure of Improvements to be Made

The improvements to be made must be specified on the *URLA*.

(4) Borrower's Authorization

The Lender must obtain the Borrower's authorization to verify the information needed to process the loan application.

(5) Borrower's Authorization for Use of Information Protected under the Privacy Act

(a) Standard

The Lender must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the Loan or, if applicable, the Property securing the Loan, and relating to any insurance claim and ultimate resolution of such claims by the Lender and FHA.

(b) Required Documentation

The Lender must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.

(6) Improvement Contract and Required Documentation

(a) Standard

The Lender must not originate a Title I Property Improvement Loan if any provision of a contract or agreement to perform property improvements violates FHA requirements. An addendum or modification may be used to remove or correct nonconforming provisions.

The Lender must ensure that at least one individual who signed the improvement proposal or contract is a Borrower.

(b) Required Documentation

The Lender must obtain supporting documentation to determine if all improvements are eligible for Title I financing and also to determine the reasonableness of the cost for the material and labor described.

(i) Contractor Improvements

If a Borrower plans to use a contractor, a Lender must obtain a copy of a proposal or contract that describes in detail the work to be performed and the estimated or actual cost.

(ii) Borrower Acting as Own Contractor

If a Borrower is Acting as Own Contractor, the Lender must obtain a detailed written description of the work to be performed including the materials to be furnished and their estimated cost.

(iii) Split Financing

If a contract or work estimate exceeds the amount of the Title I Loan, the Lender must verify the source of the additional funds. If the funds are from an additional Loan, this Loan Payment must be considered in the Borrower's debt ratio.

(B) Disclosures and Legal Compliance

The Lender must provide or ensure the Borrower is provided with the following disclosure.

(1) Notice to Borrower of HUD's Role in Title I Loans

(a) Standard

The Lender must provide a written notice to clearly inform each Borrower that the Loan will be insured against Default by HUD and about the actions that HUD will take to collect the Loan if the Borrower defaults. This notice also serves to document the Borrower's agreement to pay any penalties and administrative costs that may be assessed by HUD.

(b) Required Documentation – Borrower Acknowledgment

The Lender must have each Borrower sign a copy of the notice prior to closing. The copy signed by the Borrower(s) must be retained in the case binder.

(c) Required Documentation – Wording of the Notice

On any newly originated dealer Property Improvement Loan, and on any refinanced or assumed Property Improvement Loan, the Lender must prepare the notice on the Lender's letterhead. The notice must read as follows:

> *We have approved your application for a property improvement loan that is to be insured by the Department of Housing and Urban Development. If you fail to repay this loan as agreed, we may assign the loan and any mortgage to HUD for collection.*
>
> *Failure to pay this debt to HUD may result in offset of Federal payments due you (including Federal income tax refunds, Social Security*

benefit payments, and Federal employee wages or retirement) or may result in the administrative garnishment of your wages. In addition, failure to pay may result in the referral of the debt for collection by the Department of Justice, by the Department of the Treasury, or by private collection agencies. In addition to principal and interest on the debt, you will be liable for the payment of any penalties or administrative costs that may be imposed by HUD as authorized by Section 3717 to Title 31 of the United States Code.

Your signature below indicates that you have read and understand this notice, and that you consent to pay any penalties, administrative costs, and interest that may be assessed by HUD.

On any newly originated direct Property Improvement Loan, the text of the notice must read as follows:

We have approved your application for a property improvement loan that is to be insured by the Department of Housing and Urban Development. As one of the conditions of loan approval, you have agreed to furnish us with a form HUD-56002, Completion Certificate for Property Improvements, after the work is completed, and to permit us, or our agent, to inspect the completed improvements. If you fail to repay this loan as agreed, we may assign the loan and any mortgage to HUD for collection.

Failure to pay this debt to HUD may result in offset of Federal payments due you (including Federal income tax refunds, Social Security benefit payments, and Federal employee wages or retirement) or may result in the administrative garnishment of your wages. In addition, failure to pay may result in the referral of the debt for collection by the Department of Justice, by the Department of the Treasury, or by private collection agencies. In addition to principal and interest on the debt, you will be liable for the payment of any penalties or administrative costs that may be imposed by HUD as authorized by Section 3717 to Title 31 of the United States Code.

Your signature below indicates that you have read and understand this notice, and that you consent to pay any penalties, administrative costs, and interest that may be assessed by HUD.

(2) Compliance with All Applicable Laws, Rules, and Requirements

The Lender must comply with all federal, state, and local laws, and requirements applicable to the loan transaction, including full compliance with the applicable disclosure requirements of the Consumer Financial Protection Bureau (CFPB), including those related to:

- Truth in Lending Act (TILA);

- Real Estate Settlement Procedures Act (RESPA); and
- the FCRA and the ECOA, as implemented by Regulation B (12 CFR Part 1002).

(3) Nondiscrimination Policy

The Lender must fully comply with all applicable provisions of nondiscrimination and equal opportunity laws, regulations, and contract provisions including, but not limited to:

- Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the FCRA, 15 U.S.C. §§ 1681a–1681x; and
- the ECOA, 15 U.S.C. §§ 1691a–1691f.

The Lender must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because an applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of the Property.

(C) Application Document Processing

The Lender must report the Loan and perform any associated tasks in FHA Connection (FHAC). The Lender may use nonemployees in connection with its origination of FHA-insured Loans only as described below.

The Lender ultimately remains responsible for the quality of the Loan and for strict compliance with all applicable FHA requirements, regardless of the Lender's relationship to the person or entity performing any particular service or task.

(1) Sponsored Third-Party Originator

The Lender is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved Lenders acting in the capacity of a sponsored TPO may have direct access to FHAC.

(2) Dealer

The Lender is responsible for approving and monitoring a Dealer and dictating the specific application and processing tasks that the Dealer performs.

(3) Contract Service Providers

A Lender may use qualified contractors to perform the administrative and clerical loan processing functions, provided the contractors do not have an interest in the transaction. These contractors perform the following functions: typing loan documents, mailing out and collecting verification forms, ordering credit reports, and/or preparing for insuring and shipping Loans to Investors.

(4) Excluded Parties

The Lender may not contract with entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. The Lender must ensure that no sponsored TPO or contractor engages such an entity or person to perform any function relating to the origination of an FHA-insured Loan.

The Lender must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(5) Underwriter Qualifications

HUD does not approve nor require Direct Endorsement certification for Title I underwriters. Title I Lenders approve the underwriter based on demonstrated capabilities and knowledge in loan underwriting.

The Lender must ensure that the underwriter meets the necessary qualifications to underwrite Title I Property Improvement Loans. The Lender that closes or reports the Loan for insurance in FHAC must employ the underwriter in a full-time position.

(D) Initial Document Processing

The Lender begins processing the Loan by obtaining the completed *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-TI.

(E) Case Number Assignment

The case number is assigned when the Loan is reported for insurance in FHAC.

A Lender reports all prospective Title I Property Improvement Loans to HUD via the FHAC portal website. Once the Lender's submission passes all data entry validations, it is accepted for overnight processing.

This process verifies the submitted data against a series of system validations. Once completed, the system will issue a Title I case number that will be specific to the loan transaction. The system will advise the Lender if additional information is required or if corrections are needed.

ii. Property Improvement Loan Eligibility and Purpose

(A) Definition

A Property Improvement Loan refers to a Loan made to finance actions or items that substantially protect or improve the basic livability or utility of a Property. Unless otherwise indicated, the term includes:

- Single Family, Multifamily and Nonresidential Property Improvement Loans;
- Manufactured Home Improvement Loans classified as real estate or as Personal Property;
- Historic Preservation Loans; and
- Fire Safety Equipment Loans in existing Health Care Facilities.

(B) Standard

The loan proceeds may be used for the following loan types and purposes.

(1) Single Family Property Improvement Loan

A Single Family Property Improvement Loan refers to a Loan to finance alterations, repairs, and improvements to or in connection with an Existing Structure used or to be used as a Single Family residence.

Existing Structure refers to a dwelling, including a Manufactured Home, which was completed and occupied at least 90 Days prior to an application for a Title I Loan, or a nonresidential Structure that was a completed building with a distinctive functional use prior to an application for a Title I Loan. However, these occupancy and completion requirements shall not apply to:

- Loans having a principal obligation of $1,000 or less; or
- residential Structures which have been damaged by conditions determined by the President to warrant relief under the provisions of title 42, chapter 68, of the United States Code.

(2) Multifamily Property Improvement Loan

A Multifamily Property Improvement Loan refers to a Loan to finance the alteration, repair, improvement, or conversion of an Existing Structure used or to be used as an apartment house or a dwelling for two or more families. The multifamily Structure may not be owned by a corporation, partnership, or trust, unless prior approval from the Secretary is obtained for an exception to this requirement.

(3) Nonresidential Property Improvement Loan

A Nonresidential Property Improvement Loan refers to a Loan made to finance the construction of a new, exclusively nonresidential Structure or the alteration, repair, or improvement of an Existing Structure that is nonresidential. Such a

Structure may be temporarily used for residential purposes while the Borrower constructs a new dwelling to replace a dwelling previously occupied by the Borrower that was destroyed or damaged by conditions determined by the President to warrant relief under the provisions of 42 U.S.C. Chapter 68, provided that the credit application is filed within one year from the date of such a determination.

(4) Manufactured Home Improvement Loan (Real Estate)

A Manufactured Home Improvement Loan refers to a Loan made to finance the alteration, repair, or improvement of an Existing Manufactured Home, which is classified as Real Property in that the home is placed on a permanent foundation, the home and lot are classified as realty by the state or locality in which the Property is located, and any Loans on the Property are secured by Loans or deeds of trust covering the home and lot. The proceeds of a Manufactured Home Improvement Loan may also be used for improvements to the home site, as long as the Borrower is the owner of the home and the underlying real estate.

An owner is a person, including a Borrower, who has title in whole or in part to the Property which is the subject of a loan transaction.

(5) Manufactured Home Improvement Loan (Chattel/Personal Property)

A Manufactured Home Improvement Loan refers to a Loan made to finance the alteration, repair, or improvement of an Existing Manufactured Home, which is classified as Personal Property by the state or locality in which the Property is located. The proceeds of a Manufactured Home Improvement Loan may also be used for improvements to the home site, as long as the Borrower is the owner of the home and the underlying real estate.

(6) Historic Preservation Loan

A Historic Preservation Loan refers to a Loan to finance the preservation (restoration or rehabilitation) of an historic residential Structure, which is listed on the National Register of Historic Places, or certified by the Secretary of the Interior as conforming to National Register criteria.

Restoration is the process of accurately recovering the form and details of a historic residential structure as it appeared at a particular period of time by removing later work and by replacing missing original work.

Rehabilitation refers to the process of returning a historic residential structure to a state of utility, through repair or alteration, which makes possible an efficient contemporary use. In rehabilitation, those portions of the Property important in illustrating historic, architectural and cultural values are preserved or restored.

(7) Fire Safety Equipment Loan for Health Care Facility

A Fire Safety Equipment Loan refers to a Loan made to finance the purchase and installation of any device or construction feature which is recognized in the latest edition of HUD's Minimum Property Standards for Care Type Housing (HUD Handbook 4920.1) or the Fire Safety Code of the National Fire Protection Association, and is designed to reduce the risk of death, personal injury, or property damage resulting from a fire in a Health Care Facility.

A Health Care Facility refers to a proprietary facility or a facility of a private nonprofit corporation or association licensed or regulated by the state or by the municipality or other political subdivision in which the facility is located, and operated as one or more of the following:

- a nursing home for the accommodation of convalescents or other persons who are not acutely ill and not in need of hospital care, but who require skilled nursing care and related medical services performed under the general direction of persons licensed by the law of the state where the facility is located to provide such care or services;
- an intermediate Health Care Facility for the accommodation of persons who, because of incapacitating infirmities, require minimum but continuous care, but not continuous medical care or nursing services;
- an extended Health Care Facility for inpatient care for convalescents or chronic disease patients who require skilled nursing care and related medical services; or
- another comparable Health Care Facility.

(C) Refinance

A refinance transaction establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property. The existing debt to be paid off must be a Title I Property Improvement Loan. The refinance Loan may also advance funds for additional improvements.

FHA insures three types of Title I Property Improvement refinance transactions:

1. Simple Title I Property Improvement Refinance
2. Streamline Title I Property Improvement Refinance (Non-credit Qualifying)
3. Title I Property Improvement Refinance With Advance of Funds

(D) General Borrower Eligibility Requirements

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section.

The Borrower who is also the Dealer or contractor must comply with Title I Borrower Acting as Own Contractor policy.

(1) Social Security Number

(a) Standard

Each Borrower must provide evidence of their valid Social Security Number (SSN) to the Lender, except for individuals employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD, who are not required to provide an SSN.

(b) Required Documentation

The Lender must:

- validate and document an SSN for each Borrower, co-Borrower, or Co-signer on the Loan by:
  - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through FHAC; and
  - examining the Borrower's Social Security Card; original pay stubs; IRS Form W-2s, *Wage and Tax Statement*; valid Tax Returns obtained directly from the Internal Revenue Service (IRS); or other document relied upon to underwrite the Loan; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during loan processing and underwriting using a service provider to verify the SSN with the SSA.

(2) Borrower Age Limits

The Borrower must be old enough to enter into a loan Note that can be legally enforced under the laws of the state or other jurisdiction where the Property is located. There is no maximum age limit for a Borrower.

(3) Borrower and Co-Borrower Ownership and Obligation Requirements

The Borrower must have at least a one-half interest in the Property that is being improved in one of the following forms:

- Fee Simple title to the Real Property, including a Manufactured Home that qualifies as Real Property;
- lease of the Real Property for a fixed term, which expires not less than six calendar months after the final maturity of the proposed Title I Loan;
- a recorded land installment contract for the purchase of the Property; or
- title to a Manufactured Home that is the Principal Residence of the Borrower.

To be eligible, all Borrowers and co-Borrowers must have title to the Property at settlement, be obligated on the Note or credit instrument, and sign all security instruments.

Not all individuals with an interest in the Property are required to be Borrowers. However, the security instrument must be executed by all parties necessary to make the lien valid and enforceable under state law.

(4) Citizenship and Immigration Status

U.S. citizenship is not required for loan eligibility.

(5) Residency Requirements

The Lender must determine the residency status of the Borrower based on information provided on the loan application and other applicable documentation. In no case is a Social Security card sufficient to prove immigration or work status.

(a) Permanent Residents

(i) Standard

A Borrower with lawful permanent resident status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

(ii) Required Documentation

For persons with lawful permanent resident status, the Lender must document the file with evidence of permanent residency and indicate that the Borrower is a lawful permanent resident on Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application (URLA)*.

The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

(b) Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau

(i) Standard

A Borrower with citizenship in the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

(ii) Required Documentation

For Borrowers who are citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau, the file must include evidence of such citizenship.

(c) Non-U.S. Citizens without Lawful Residency

Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured Loans.

(6) Borrower Ineligibility due to Delinquent Federal Non-tax Debt

(a) Standard

Lenders are prohibited from processing an application for an FHA-insured Loan for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Loans. Lenders are required to determine if the Borrowers have delinquent federal non-tax debt. Lenders may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

(b) Verification

If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the Lender must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the Lender must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured Loan until the Borrower resolves the debt with the creditor agency.

The Lender may not deny a Loan solely on the basis of CAIVRS information that has not been verified by the Lender. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Lender may continue to process the loan application.

(c) Resolution

In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

(d) Required Documentation

The Lender must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the Lender may obtain evidence of resolution by obtaining a clear CAIVRS report.

(7) Eligibility Period for Borrowers Delinquent on FHA-Insured Loans

If a Borrower is currently Delinquent on an FHA-insured Loan, they are ineligible for insurance on a new FHA Loan unless the delinquency is resolved.

(8) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt, and the Borrower has made timely payments for at least three months of scheduled payments prior to the date of application. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The Lender must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

(b) Verification

Lenders must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

(c) Required Documentation

The Lender must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.

(9) Valid Lien Requirements

(a) Unsecured Loan

A Property Improvement Loan amount less than or equal to $7,500 may be unsecured.

A Manufactured Home Improvement Loan on a unit classified as Personal Property need not be secured and any/combined Title I Loans must not exceed $7,500.

(b) Secured Lien

Any Property Improvement Loan in excess of $7,500 must be secured against the subject Property.

If there are other Title I Loans on the same Property, a Property Improvement Loan of $7,500 or less must be secured if the combination of outstanding balances on the Title I Loans will exceed $7,500.

(c) Lien Priority

(i) Standard

The secured Title I Property Improvement Loan need not be in first lien position. The lien may be in either the first or the second lien position.

(ii) Exception

A third lien position may be accepted under the following circumstances:

- where the existing first and second mortgages were made at the same time for a purchase;
- where an existing second mortgage was provided by a state or local government agency in conjunction with a downpayment assistance program;
- with a two lien purchase where the second lien expires after a period of occupancy; or
- when the Borrower used a two lien transaction to purchase the Property, but refinanced the first trust as a no cash-out or for a lower interest rate. The refinanced first mortgage may include closing costs and reasonable financing fees, but must not have financed additional funds for improvements, debt consolidation, and delinquent taxes, and must not result in cash to the Borrower.

A third lien position is not acceptable when:

- an existing second mortgage encumbering the Property is a home equity line of credit, or a Home Equity Conversion Mortgage (HECM), or any reverse mortgage; or
- the Property is secured by any partial claim event.

(iii) Required Documentation

Lenders must document concurrent loan dates of the Loans secured by a first and second lien.

If the Borrower refinanced the original first mortgage, documentation must be obtained to evidence:

- the date of the first mortgage, and date of refinance;
- the second lien had been subordinated so that it retained second position; and
- the refinanced first mortgage was not greater than the Payoff of the unpaid balance, plus closing costs and reasonable financing fees, and no cash to the Borrower.

(10) Eligibility Requirements for Living Trusts

(a) Property Held in Living Trust

The Lender may originate a Loan for a living trust for a Property held by the living trust, provided the beneficiary of the living trust is a Co-signer and will occupy the Property as their Principal Residence, and the trust provides reasonable means to ensure that the Lender will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the Property.

(b) Living Trusts and Security Instruments

(i) Standard

The name of the living trust must appear on the security instrument, such as the mortgage, deed of trust, or security deed.

The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the Owner-Occupant and other Borrowers, if any, must also appear on the Note with the trust.

The name of the individual Borrower is not required to appear on the property deed or title.

(ii) Required Documentation

The Lender must obtain a copy of the trust documentation.

(E) Excluded Parties

The Lender must establish that no participants are Excluded Parties and document the determination on the Title I loan summary/underwriter's worksheet.

(1) Borrower

(a) Standard

A Borrower of a new Loan or assumption is not eligible to participate in FHA-insured loan transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.

Exception

Establishing Excluded Parties is not required for an existing Borrower being evaluated under Loss Mitigation Tools.

(b) Required Documentation

The Lender must check the HUD Limited Denial of Participation (LDP) List to confirm the Borrower's eligibility to participate in an FHA-insured loan transaction.

The Lender must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(2) Other Parties to the Transaction

(a) Standard

A Loan is not eligible for FHA insurance if anyone participating in the loan transaction is found on HUD's LDP List or in SAM. This may include but is not limited to:

- Borrower
- Dealer involved in a Dealer Loan
- loan officer
- loan processor
- underwriter

(b) Required Documentation

The Lender must check HUD's LDP List and SAM, and must follow appropriate procedures defined by that system to confirm eligibility for participants involved in the transaction.

(F) Policy Limiting the Number of Title I Property Improvement Loans

(1) Standard

Multiple Title I Loans may be issued for the same Property, provided that the sum of the outstanding balances on all Title I Loans on the same Property do not exceed the maximum loan amount outlined above (based on the type of Property).

(2) Required Documentation

The Lender must include in the case binder verification of the outstanding balances of all Title I Loans.

(G) Occupancy Requirements

(1) Standard

For all property types except Manufactured Homes, the Borrower is not required to occupy the Property.

(2) Manufactured Home Improvement Loan Standard

The Borrower must own and occupy a Manufactured Home as a Principal Residence.

(a) Definition of Principal Residence

A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

Exception

A Borrower who is serving in the United States military and is temporarily deployed or assigned from their permanent duty station near the Manufactured Home is considered to be in a temporary duty status and qualifies as meeting the occupancy requirement.

(b) Required Documentation

When improvements to a Manufactured Home are financed by a Title I insured Loan, the Borrower must certify that the Manufactured Home is occupied as a Principal Residence.

The *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and other loan documents must consistently evidence that the Borrower occupies the Manufactured Home. If the Borrower owns other Property, the *URLA* must identify the property address, expenses for debt, taxes and insurance, and its use as either a Secondary Residence or for investment.

When a Borrower does not occupy a Manufactured Home because of temporary deployment or assignment in the United States military, the case binder must contain documentation to evidence the orders or assigned duty station that is not within reasonable commuting distance from the Manufactured Home.

(H) General Property Eligibility

(1) Eligible Geographic Locations

The Property must be located within the U.S., Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

(2) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA loan insurance if the improvements are in or are proposed to be located within the Coastal Barrier Resources System (CBRS).

(3) Hazard Insurance

Hazard insurance is not required for Title I Property Improvement Loans.

(4) Special Flood Hazard Areas (Secured Liens)

(a) Standard

For Secured Liens, the Lender must determine if it is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Lender must obtain flood zone determination services to cover the Life of the Loan Flood Certification.

Lenders must ensure that Borrowers maintain adequate Flood Insurance during the life of the Loan.

Insurance must be obtained on the secured Loan if the Lender or Servicer becomes aware that the home site involved subsequently becomes part of an SFHA due to a Flood Insurance Rate Map (FIRM) revision. The insurance must be maintained by the Borrower for the remaining term of the Loan.

Coverage must meet minimum federal requirements for the type of Property under the National Flood Insurance Program (NFIP). At their discretion, Lenders may require more insurance than those set by the NFIP.

Flood maps and other information about FEMA designated flood hazard areas may be obtained from FEMA's website or by contacting the FEMA office for the geographic area in question.

(b) Required Documentation

When the Property is secured by a Title I lien, the Lender must obtain the Life of the Loan Flood Certification indicating whether or not the property site is located within an SFHA.

(5) Flood Insurance

(a) Standard

Flood Insurance is required if the Property to be improved is secured and is located in a FEMA designated flood hazard area.

The amount of insurance must be no less than the unpaid balance due on the Title I Loan, and the Lender must be named as the loss payee.

Prior to closing, Lenders must inform Borrowers of the requirement to have or obtain adequate Flood Insurance as a condition of closing for Properties where any portion of the Property is located in an SFHA.

Flood Insurance must be maintained for the life of the insured Loan.

(b) Required Documentation

When the property site is located in an SFHA, the Lender must provide a copy of the pages from the Flood Insurance policy showing coverage amount equal to or greater than the unpaid principal balance due on the Title I Loan and reflecting the Lender as loss payee.

***(i)* Requirements for Private Flood Insurance**

If the Borrower purchases a Private Flood Insurance (PFI) policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of Property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar nonapplicability provisions, as under a standard Flood Insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(ii) Private Flood Insurance Policy Compliance Aid

Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: “This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages.”

Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. A

Mortgagee may not reject a policy solely because it is not accompanied by a PFI Policy Compliance Aid.

(6) Property Types

Title I insures the following eligible property types:

- Single Family Dwelling (1 unit)
- multifamily dwelling (2 or more units)
- nonresidential Property
- Manufactured Home (real estate)
- Manufactured Home (Chattel/Personal Property)
- historic Property (listed on the National Register of Historic Places or certified by the Secretary of the Interior as conforming to National Register criteria)

(a) Single Family Dwelling

A Single Family Dwelling refers to a one-unit residential Structure that was completed and occupied for a time period of at least 90 Days prior to loan application.

This 90-Day occupancy requirement need not be:

- satisfied by the Borrower; nor
- during the 90 Days immediately prior to the loan application.

A newly constructed dwelling that has not been occupied for at least 90 Days is not eligible for a Title I Property Improvement Loan.

A vacant residence **is** eligible so long as it was previously occupied at some point in the past (for at least 90 Days).

(b) Multifamily Dwelling

A Multifamily Property refers to an Existing Structure used or to be used as an apartment house or dwelling for two or more families.

(c) Nonresidential Property

A Nonresidential Property refers to a Structure that is used or will be used exclusively for nonresidential purposes.

(d) Manufactured Home

A Manufactured Home refers to a transportable Structure, comprised of one or more modules, each built on a permanent chassis, with or without a permanent foundation, designed for occupancy as a Principal Residence by a single family.

A Manufactured Home being improved may have been constructed at any time, including construction prior to June 15, 1976. The Title I Property Improvement Loan program does not require that Manufactured Homes comply with the National Manufactured Housing Construction and Safety Standards Act of 1974 (42 U.S.C. §§ 5401–5426) at 24 CFR Part 3280. The Borrower must occupy the Property as their Principal Residence.

(i) Manufactured Home (Real Estate)

A Manufactured Home refers to a one-unit Manufactured Home that qualifies as real estate in that:

- the home is placed on a permanent foundation;
- the home and the lot are classified as real estate by the state or the locality in which the Property is located; and
- any Loans on the Property are secured by Mortgages or deeds of trust covering the home and lot.

(ii) Manufactured Home (Chattel/Personal Property)

A Manufactured Home refers to an Existing Manufactured Home unit classified as Personal Property in the state or locality where the Property is located, whether the Manufactured Home is on a permanent foundation or not.

(e) Historic Property

A Historic Property refers to a residential Structure that is listed on the National Register of Historic Places or is certified by the Secretary of the Interior as conforming to National Register criteria.

b. Allowable Loan Parameters (05/09/2022)

i. Maximum Loan Amounts

The principal amount for a Property Improvement Loan must not exceed the actual cost of the Eligible Improvements in the project plus Financeable Fees and Charges, up to the Title I Property Improvement Nationwide Loan Limits.

The Nationwide Loan Limits are based on the property type and loan purpose.

(A) Title I Property Improvement Nationwide Loan Limits

A Title I Property Improvement Loan must not exceed the Nationwide Loan Limits published by HUD, including any Financeable Fees and Charges.

The Title I Property Improvement Nationwide Loan Limits for the Property Improvement program are statutorily mandated.

For Title I Property Improvement Loans, the loan amount is limited to the lesser of the cost of eligible improvements, plus any financeable fees, or the amount shown in the charts below for the property type or loan purpose.

Single Family and Multifamily Residential Property Types		
Number of Units	**Secured Maximum Loan Amount**	**Unsecured Maximum Loan Amount**
One	$25,000	$7,500
Two	$24,000	
Three	$36,000	
Four	$48,000	
Five or more units	$60,000	
Manufactured Home classified as Real Property	$25,090	
Manufactured Home classified as Chattel or Personal Property	$7,500 Lien is optional	

Other Property Types and Loan Purposes		
Type or Purpose	**Secured Maximum Loan Amount**	**Unsecured Maximum Loan Amount**
Nonresidential Property	$25,000	$7,500
Historic preservation for residential dwelling(s)	Lesser of: $15,000 per Dwelling Unit; or $45,000.	
Fire Safety Equipment Loans	$50,000	

If the Borrower has more than one Loan, the combination of the outstanding balances on a particular Property must not exceed the largest of the maximum loan amount limits prescribed for the property type or loan purpose.

(B) Required Investment

The Borrower is not required to contribute funds to the property improvement project. All money to fund the eligible improvements and allowable fees may be derived from the proceeds of the Title I insured Loan, and other sources, as applicable.

(C) Minimum Equity

The Borrower is not required to have equity in the Property.

ii. Loan Term

(A) Minimum Loan Term

The minimum loan term for all property types and purposes is six months.

(B) Maximum Loan Term

(1) New Property Improvement Loan

The maximum loan term for a new Title I Property Improvement Loan is based on property type and purpose.

Single Family and Multifamily Property Types		
Number of Units	**Loan Term**	
	Maximum	**Minimum**
One	20 years and 32 Days	6 months
Two		
Three		
Four		
Five or more units		
Manufactured Home classified as Real Property	15 years and 32 Days	
Manufactured Home classified as Chattel or Personal Property	12 years and 32 Days	

Other Property Types and Loan Purposes		
Type or Purpose	**Maximum Loan Term**	**Minimum Loan Term**
Nonresidential Property	20 years and 32 Days	6 Months
Historic Preservation for Residential Dwelling(s)	15 years and 32 Days	
Fire Safety Equipment Loans for Health Care Facility	20 years and 32 Days	

(2) Refinance of an Existing Title I Property Improvement Loan

A Property Improvement Loan may be refinanced for an extended period, in accordance with the following rules:

- the maximum term permitted for a Loan that refinances a Borrower's existing insured Property Improvement Loan must not exceed the maximum term permitted for its property type or loan purpose; and
- the total time period from the date of the original Loan to the final maturity of the refinanced Loan must not exceed the maximum term permitted for a new Loan plus 9 years and 11 months. This particular limitation applies to all property types and loan purposes.

iii. Loan Insurance Premium

FHA collects an annual insurance premium charge for eligible Loans originated under the FHA Title I Property Improvement Loan program.

The Title I Property Improvement Loan program does not require the payment of an Upfront Insurance Premium (UFIP).

(A) Annual Loan Insurance Premium

The annual loan insurance premium is an obligation of the Lender. The Lender may pass the premium charge on to the Borrower, provided that such charges are fully disclosed.

HUD collects the insurance premium in annual installments of 1 percent of the original loan amount.

The loan insurance premium must be paid for the full term of the Loan unless the Loan is prepaid in full or the Lender files a claim with FHA.

(B) Passing Loan Insurance Premium to Borrower

Lenders must disclose the loan insurance charges to be paid by the Borrower according to required laws, and RESPA and TILA as applicable. Additional or separate disclosure agreements for the fee is not required to be in the file.

c. Property Eligibility (05/08/2025)

i. Appraisals

An appraisal is not required for the origination of a Title I Property Improvement Loan.

An appraisal may be required in the event of a Release or Substitution of Security.

ii. Eligible Improvements

(A) Standard

The loan proceeds must be used to finance eligible property improvements and Financeable Fees and Charges.

The improvements must substantially protect or improve the basic livability or utility of the Property. In general, improvements must be permanent, hard wired or hard plumbed to the Property.

The Lender must carefully review the list of eligible improvements below to confirm that a proposed improvement is eligible.

The loan proceeds may only be used to finance improvements that are started after loan approval. If the Lender determines that emergency action was needed to repair damage resulting from a disaster in a major disaster area declared by the President, the Lender may grant an exception to the standard. Other emergency actions taken up

to 30 days prior to the application will be eligible when necessary to protect the home from damage, such as furnace replacement, plumbing or roof leaks.

The improvements must not include any leased component, including any energy systems, not fully owned by the Borrower.

(B) Required Documentation

The improvements must be specified on the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65).

The Lender must obtain supporting documents to determine if all improvements are eligible for Title I financing and to determine the reasonableness of the cost for the material and labor described.

(C) Use of a Contractor

If the Borrower plans to use a contractor to complete the improvements, the Lender must obtain a copy of the proposal or contract that describes in detail the work to be performed and the estimated or actual cost.

(D) Borrower Acting as Own Contractor

If a Borrower is acting as their own contractor, the Lender must obtain a detailed written description of the work to be performed including the materials to be furnished and their estimated cost. A Loan may include financing for the cost of technical tradesmen or other subcontractors hired by the Borrower, but it may not include financing for the Borrower's labor. This documentation must be presented in the form of a budget and include:

- the quantity and cost of materials;
- the size, type, style, grade, color, etc. of materials; and
- the type and cost of subcontracted labor, if applicable.

The loan proceeds must not be used to compensate the Borrower for labor performed.

(E) Eligible Property Improvements

Eligible Repairs and Improvements

- abutments
- acoustical tile
- additions to Structures
- air conditioning (central)
- alteration
- aluminum panels
- appliances, when part of an overall remodeling project that includes substantial changes or upgrades to the rooms in which the
- laundry chutes
- laundry tubs
- lightning rods
- meters, electric and water, gas (replacement only)
- molding
- painting
- paneling
- papering

Eligible Repairs and Improvements

appliances are placed
- asphalt siding
- attic fans
- auditoriums
- awnings (aluminum, canvas, plastic, wood)
- back bars
- barns
- basements
- bathrooms (fixtures and connections)
- bathtubs (enclosures)
- bins (coal, grain, concrete)
- black topping
- blinds (venetian, vertical)
- blowers (furnace)
- boathouses
- boat slips
- boilers
- bookcases (built-in)
- brick shingles or siding
- built-in kitchen equipment
- bulkheads
- bunkhouses
- burglar alarms
- burglar bars/decorative bars
- burners (furnace, oil, gas)
- cabinets
- canopies
- carpet; wall-to-wall
- carports
- casements; window
- ceilings
- cellar; storm, wine
- cesspools
- chimneys
- choir lofts
- churches (Structure only)
- chutes; coal, grain, laundry
- cleaning, steam, before painting
- cold storage rooms
- coating; roofing
- commercial buildings
- composition; flooring paneling, shingles, siding
- condominium, Single Family - $25,000 (interior improvements or exterior improvements, provided they are not common
- partitions
- patios
- pavers
- paving
- piers (not for common use)
- pillars
- plastering
- plumbing
- pole barns, permanent foundation
- porches
- pumps
- radiators, permanently installed (covers not eligible)
- railings
- registers, heat
- reservoirs (not for irrigation)
- resurfacing
- retaining walls
- roof coating
- roofing
- safes/vaults (permanently affixed)
- sandblasting
- sanding
- sashes
- screening
- seawalls (non-floating)
- security system, hardwired into electric system
- sewerage systems
- septic tank - replacement of existing
- shingles
- shower doors
- shutters
- sidewalks (private)
- siding (cement, ceramic tile, brick, wood, aluminum)
- sills
- silo
- sinks
- slating
- smokestack
- solar and wind energy systems
- sunspace/solarium - permanently installed for use as a sun room, family room
- spa – permanently installed inside

Eligible Repairs and Improvements

area improvements and are part of the Property unit)
- converting; structural
- co-op, cooperative (inside improvements only – maximum loan amount is $7,500)
- cottages
- curbing (Single Family Property only)
- decks, gazebos - not for hot tub use or around a swimming pool
- docks
- door chimes - not for common use
- doors (storm, screen, fire)
- downspouts
- drain fields – septic
- drilling; wells (must be a Structure on Property and previously had water supply)
- drive-in (Structure only, not trade fixtures or equipment)
- driveways
- ducts
- duplex (lot and both dwellings owned by same person = multifamily loan limits, $24,000)
- electric garage door opener (hard wire)
- electric light fixtures, lines, poles
- electric light systems
- elevators
- escalators
- exhaust fans
- exterior finishing work
- fans (permanently attached to Structure, non-window)
- fences (chain link, brick, wood, iron)
- finishing work
- fire escapes
- fireplaces (indoor)
- floodlight (non-display)
- flooring
- flour mills, sheds
- flues
- foundations
- fronts, commercial buildings or residential Structures
- furnaces; coal, floor, gas, oil
- garages
- garbage disposal units
- gas heating systems
the Structure
- sprinkler systems, fire
- stairs
- stalls
- steam cleaning
- steeples
- stokers
- stone siding
- storm cellars
- storm panels
- stuccoing
- studding
- structural changes
- tanks; fuel (residential Property only, not commercial); milk, septic, storage, water
- tiles (ceiling, ceramic, cement, floor (permanently affixed, plastic, acoustical)
- termite control, with replacement of damage
- trees (diseased or damaged and hazard to Structure on Property)
- trestles
- troughs
- utility building (sheds); permanent masonry /concrete foundation
- vaults
- venetian/mini blinds
- ventilation hoods
- ventilation systems
- vents
- verandas
- wall heaters
- wallboards
- walls
- warehouses
- washtubs
- water conditioners permanently installed in plumbing system (purifiers, softeners, sterilizers)
- water coolers (permanent)
- water heaters
- water systems
- water tower
- water wells (must have Structure on

Eligible Repairs and Improvements

- gazebo, on permanent foundation
- generators, permanently installed
- glass tinting
- grates, furnace
- guard rails
- guttering
- heat control devices
- incinerators
- insulation
- interior work
- ironing board, permanently installed
- Jacuzzi, inside bathroom
- jalousies
- lattice work
- Property and previously had water supply)
- waterproofing
- weatherstripping
- wells (together with pumping and piping equipment)
- Special Energy System (e.g., solar, wind) (eligible only for furnishing power to residential Structure)
- windows (screen, storm, thermal)
- wiring; electric
- wood shingles (siding, paneling)

Other improvements that comply with the Eligible Improvement Standards are acceptable.

iii. Ineligible Improvements

Ineligible Improvements refer to improvements or products that do not become a permanent part of the Real Property and improvements or products that are considered luxury items.

The following products and improvements are ineligible and **may not** be financed with a Title I Property Improvement Loan:

- air conditioner (placed in a window, and not permanently affixed to the Property)
- asbestos siding
- barbecue pits
- barn cleaners
- bath houses
- cabana room
- clothes lines and poles
- commonly owned elements of condominiums, apartments or cooperatives
- debt consolidation
- deck around swimming pool
- demolition (Structure must be replaced at the same time)
- dishwashers (portable), must be part of the sink
- docks, floating
- drills (equipment type)
- dumbwaiters
- equipment (industrially; farm or dairy)
- exterior hot tubs, saunas, spas, or whirlpools baths
- fire extinguishers

- flower boxes
- food mixers
- freezer (stand-alone)
- grandstands
- greenhouses (except commercial)
- hangars (airplane)
- hay dryers
- irrigations systems
- kennels
- landscaping
- lathes
- moving Structures (eligible if move is on the same lot)
- orchards
- outdoor fireplaces
- ovens (must be built in)
- penthouses (must be an existing penthouse for improvements to be eligible)
- photomurals
- satellite dishes
- swimming pools
- swimming pool enclosures
- tree surgery/removal (eligible if tree is diseased and a hazard to the Structure)
- television antennae
- valance boards
- waterproofing (pumping or injecting any substance in the earth adjacent to or beneath the foundation or basement floor)

iv. Property Assessed Clean Energy

Properties which will remain encumbered with a Property Assessed Clean Energy (PACE) obligation are not eligible for Title I Property Improvement Loans.

d. Underwriting the Borrower (11/10/2026)

The Lender must evaluate the Borrower's ability and willingness to repay the Title I Property Improvement Loan. The Lender must exercise prudent underwriting practices when evaluating the creditworthiness of the Borrower in order to limit the risk of Default.

Title I Loans are not eligible for automated underwriting through the Technology Open To Approved Lenders (TOTAL) Scorecard.

Once it is determined that the Borrower is eligible, analysis of the Borrower's credit must be performed for final loan approval, including review and documentation of the following:

- credit requirements;
- liabilities;
- income requirements;

- evaluating liabilities and debt;
- asset requirements;
- debt ratio; and
- compensating factors.

i. Credit Requirements

(A) General Credit Requirements

FHA's general credit policy requires Lenders to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

The Lender must obtain a merged credit report from an independent consumer reporting agency.

The Lender must obtain a credit report for each Borrower who will be obligated on the loan Note. The Lender may obtain a joint report for individuals with joint accounts.

Before making a determination on the creditworthiness of an applicant, a Lender must conduct an interview to resolve any material discrepancies between the information on the loan application and information on the credit report to determine accurate and complete information.

The Lender is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions.

(B) Types of Credit History

(1) Traditional Credit

Lenders must pull a credit report that draws information from at least one national credit bureau. If the Lender obtains credit information from more than one repository, the reports should be merged. Lenders are prohibited from developing non-traditional credit history to use in place of a traditional credit report.

If the credit report generates a credit score, the Lender must utilize traditional credit history.

(a) Requirements for the Credit Report

Credit reports must obtain all information from at least one credit repository pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The Lender must retain copies of all credit reports.

The credit report must include:

- the name of the Lender ordering the report;
- the name, address, and telephone number of the consumer reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA loan insurance purposes provided that the loan application captures the full nine-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the FCRA, including information for the last seven years regarding:
  - bankruptcies;
  - Judgments;
  - lawsuits;
  - foreclosures; and
  - tax liens; and
- for each Borrower debt listed:
  - the date the account was opened;
  - high credit amount;
  - required monthly payment amount;
  - unpaid balance; and
  - payment history.

(b) Updated Credit Report or Supplement to the Credit Report

The Lender must obtain an updated credit report or supplement if the underwriter identifies material inconsistencies between any information in the case binder and the original credit report.

(2) Non-traditional Credit

For Borrowers without a credit score, the Lender must develop the Borrower's credit history using the requirements outlined below.

(a) Independent Verification of Non-traditional Credit Providers

When the Lender uses non-traditional credit, the Lender must independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

To verify the existence of each credit provider, the Lender must review public records from the state, county, or city or other documents providing a similar level of objective information.

To verify credit information, the Lender must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
- obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the Borrower's rental payment history, the Lender must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment for the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(b) Sufficiency of Non-traditional Credit References

To be sufficient to establish the Borrower's credit, the non-traditional credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;
  - water;
  - television service; or
  - internet service.

If the Lender cannot obtain all three credit references from the list above, the Lender may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance);
- payment to child care providers made to businesses that provide such services;
- school tuition;
- retail store credit cards (e.g., from department, furniture, or appliance stores, or specialty stores);
- rent-to-own (e.g., furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:

  - were made at least quarterly;
  - were not payroll deducted; and
  - caused no Insufficient Funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

(3) Minimum Decision Credit Score

(a) Definition

The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where three differing scores are reported, the middle score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that score is the MDCS.

An MDCS is determined for each Borrower.

(b) Standard

HUD does not require a minimum credit score requirement for the Title I Property Improvement Loan program.

(c) Required Documentation/Data Entry

When credit scores are available, the Lender must report all scores in FHAC for each Borrower.

(C) Evaluating Credit History

(1) General Credit

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.

(2) Types of Payment Histories

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving accounts.

(a) Satisfactory Credit

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Loan Payments or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.

Major derogatory credit excludes medical collections. On revolving accounts, major derogatory credit must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

(b) Payment History Requiring Additional Analysis

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

The Lender must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Lender must document this analysis in the case binder. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

(3) Payment History on Housing Obligations

The Lender must determine the Borrower's housing obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Loan Payments received directly from the loan Servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Lender must verify and document the previous 12 months of housing history. For Borrowers who indicate they are living rent-free, the Lender must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent-free.

A Loan that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

(4) Collection Accounts

(a) Definition

A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.

(b) Standard

The Lender must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(c) Required Documentation

The Lender must document reasons for approving a Loan when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

(5) Charge Off Accounts

(a) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(b) Standard

The Lender must determine if Charge Off Accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(c) Required Documentation

The Lender must document reasons for approving a Loan when the Borrower has any Charge Off Accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

(6) Disputed Derogatory Credit Accounts

(a) Definition

Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(b) Standard

The Lender must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items may be excluded from consideration in the underwriting analysis:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Lender includes a copy of the police report or other documentation from the creditor to support the status of the account in the case binder.

(c) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Lender must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(7) Judgments

(a) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(b) Standard

The Lender must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

Regardless of the amount of outstanding Judgments, the Lender must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured Loan lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The Lender must include the payment amount in the agreement in the calculation of the Borrower's DTI ratio.

The Lender must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

(c) Required Documentation

The Lender must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with the creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

(8) Bankruptcy

(a) Standard: Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Loan if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During the most recent two years, the Borrower must have:

- re-established good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

- can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(b) Standard: Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Loan, if at the time of case number assignment at least 12 months of the payout period under the bankruptcy has elapsed.

The Lender must determine that during the most recent 12 months, the Borrower's payment performance has been satisfactory and all required payments have been made on time, and the Borrower has received written permission from bankruptcy court to enter into the loan transaction.

(c) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Lender must obtain the bankruptcy and discharge documents.

The Lender must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

(9) Foreclosure and Deed-in-Lieu of Foreclosure

(a) Standard

A Borrower is generally not eligible for a new FHA-insured Loan if the Borrower had a foreclosure or a Deed-in-Lieu (DIL) of Foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing entity/designee.

Exception

The Lender may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the foreclosure.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(b) Required Documentation

If the credit report does not indicate the date of the foreclosure or DIL of Foreclosure, the Lender must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

If the foreclosure or DIL of Foreclosure was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(10) Pre-Foreclosure Sales (Short Sales)

(a) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(b) Standard

A Borrower is generally not eligible for a new FHA-insured Loan if they relinquished a Property through a Short Sale within three years from the date of case number assignment.

This three-year period begins on the date of transfer of title by Short Sale.

***(i)* Exception for Borrower Current at the Time of Short Sale**

A Borrower is considered eligible for a new FHA-insured Loan if, from the date of case number assignment for the new Loan:

- all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- installment debt payments for the same time period were also made within the month due.

(ii) Exception for Extenuating Circumstances

The Lender may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(c) Required Documentation

If the credit report does not indicate the date of the Short Sale, the Lender must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

If the Short Sale was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(11) Credit Counseling/Payment Plan

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Loan, provided the Lender documents that:

- one year of the payout period has elapsed under the plan;
- the Borrower's payment performance has been satisfactory and all required payments have been made on time; and
- the Borrower has received written permission from the counseling agency to enter into the loan transaction.

(D) Evaluating Liabilities and Debt

(1) General Liabilities and Debt

(a) Standard

The Lender must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65), and required documentation.

All applicable monthly liabilities must be included in the qualifying ratio. Monthly liabilities do not have to be included if they will be paid off within 6 months.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Borrower provides written certification that they do not make payments, and are not expected by the account owner to make any payments.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

(b) Required Documentation

The Lender must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.

(2) Undisclosed Debt

When a debt or obligation is revealed during the application process or the interview with the Borrower that was not listed on the loan application and/or credit report, the Lender must:

- verify the actual monthly payment amount; and
- include the monthly payment amount in the agreement in the Borrower's liabilities and debt.

(3) Federal Debt

(a) Definition

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

(b) Standard

The Lender must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total DTI.

(c) Required Documentation

The Lender must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

(4) Alimony, Child Support, and Other Maintenance

(a) Definition

Alimony, Child Support, and Other Maintenance are court-ordered or otherwise agreed upon payments.

(b) Standard

For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Lender's calculation of the Borrower's gross income, the Lender must verify and include the monthly obligation in its calculation of the Borrower's debt.

Child support and other maintenance are to be treated as a recurring liability and the Lender must include the monthly obligation in the Borrower's liabilities and debt.

(c) Required Documentation

The Lender must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

The Lender must also obtain two of the Borrower's pay stubs covering no less than 28 Days to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

(d) Calculation of Monthly Obligation

The Lender must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(5) Deferred Obligations

(a) Definition

Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(b) Standard

The Lender must include deferred obligations in the Borrower's liabilities.

(c) Required Documentation

The Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Lender must obtain evidence of the actual monthly payment obligation, if available.

(d) Calculation of Monthly Obligation

The Lender must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, the Lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

(6) Student Loans

(a) Definition

Student Loan refers to liabilities incurred for educational purposes.

(b) Standard

The Lender must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(c) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(d) Calculation of Monthly Obligation [Text was deleted in this section.]

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

(7) Installment Loans

(a) Definition

Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of Principal and Interest (P&I). A loan secured by an interest in a timeshare must be considered an Installment Loan.

(b) Standard

The Lender must include the monthly payment shown on the credit report to calculate the Borrower's liabilities.

If the credit report does not include a monthly payment for the Installment Loan, the Lender must use the amount of the monthly payment shown in the loan agreement or payment statement.

(c) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the Installment Loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Lender must use the loan agreement or payment statement to document the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations section.

(8) Revolving Charge Accounts

(a) Definition

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(b) Standard

The Lender must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the Lender must use the payment shown on the current account statement or 5 percent of the outstanding balance.

(c) Required Documentation

The Lender must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the Lender must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

(9) 30-Day Accounts

(a) Definition

30-Day Accounts refer to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

(b) Standard

The Lender must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's debt ratio. If the credit report reflects any late payments in the last 12 months, the Lender must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(c) Required Documentation

The Lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months or life of the account, if less than 12 months. The Lender must use the credit report to document the balance, and must document sufficient funds are available to pay off the balance after loan closing.

(10) Business Debt in Borrower's Name

(a) Definition

Business Debt in the Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

(b) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Lender can document that the debt is being paid by the Borrower's business.

(c) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Lender must obtain documentation that the debt is paid out of company funds, and the debt was considered in the cash flow analysis of the Borrower's business.

(11) Disputed Derogatory Credit Accounts

(a) Definition

Disputed Derogatory Credit Accounts refer to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(b) Standard

If the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts, the Lender must include a monthly payment in the Borrower's debt calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

(12) Non-derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report

(a) Definition

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance;

- disputed accounts with late payments aged 24 months or greater; or
- disputed accounts that are current and paid as agreed.

(b) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Lender must analyze the effect of the disputed accounts on the Borrower's ability to repay the Loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

(13) Contingent Liabilities

(a) Definition

A Contingent Liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another party defaults on the payment. Contingent liabilities may include co-signer liabilities and liabilities resulting from a loan assumption without release of liability.

(b) Standard

The Lender must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Lender verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower, should the other party default, or the other party has made 12 months of timely payments.

(c) Required Documentation

(i) Mortgage Assumptions

The Lender must obtain the agreement creating the contingent liability or assumption agreement, and the deed showing transfer of title out of the Borrower's name.

(ii) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, the Lender must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months.

(iii) Court-Ordered Divorce Decree

The Lender must obtain a copy of the divorce decree ordering the spouse to make payments.

(d) Calculation of Monthly Obligation

The Lender must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(14) Collection Accounts

(a) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(b) Standard

If the credit reports used in the analysis show cumulative outstanding collection account balances of $2,000 or greater, the Lender must:

- verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds;
- verify that the Borrower has made payment arrangements with the creditor; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio.

(c) Required Documentation

The Lender must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with the creditor, if not paid prior to or at settlement.

If the Lender uses 5 percent of the outstanding balance no documentation is required.

(15) Charge Off Accounts

(a) Definition

A Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(b) Standard

Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.

(16) Private Savings Clubs

(a) Definition

Private Savings Clubs refer to non-traditional methods of saving by making deposits into a member-managed resource pool.

(b) Standard

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrower's total debt.

The Lender must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

(c) Required Documentation

The Lender must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(17) Obligations Not Considered Debt

Obligations not considered debt include:

- medical collections;
- federal, state, and local taxes, if not delinquent and no payments required;
- automatic deductions from savings, when not associated with another type of obligation;
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts;
- collateralized loans that secure cash, stock, or bond assets;
- utilities;
- child care;
- commuting costs;
- union dues;
- insurance, other than property insurance;
- open accounts with zero balances; and
- voluntary deductions, when not associated with another type of obligation.

ii. Income Requirements

(A) Definition of Effective Income

Effective Income refers to income that may be used to qualify a Borrower for a Loan. Effective Income must be reasonably likely to continue through at least the first three years of the Loan, and meet the specific requirements described below.

(B) General Income Requirements

The Lender must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

The Lender may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's Tax Returns.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

If FHA requires Tax Returns as required documentation for any type of Effective Income, the Lender must also analyze the Tax Returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

If the income documents are not received in English, the Lender must provide a complete and accurate translation for each document.

(C) Employment Income

(1) Definition

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

(2) Standard

The Lender may use Employment Income as Effective Income in accordance with the standards provided for each type of Employment Income.

(3) Required Documentation

For all Employment Income, the Lender must verify the Borrower's most recent one year of employment and income, and document it using one of the following methods.

(a) Traditional Current Employment Documentation

The Lender must obtain one of the following to verify current employment:

- a written Verification of Employment (VOE) covering one year;
- direct verification by a TPV vendor covering one year, subject to the following requirements:
  - the Borrower has authorized the Lender to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; or
- an electronic verification acceptable to FHA.

(b) Alternative Current Employment Documentation

If using alternative documentation, the Lender must:

- obtain a copy of the most recent pay stub that shows the Borrower's year-to-date earnings;
- obtain a copy of the IRS Form W-2 from the previous year, if the Borrower has been employed by the current employer for less than one year; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

(c) Past Employment Documentation

Direct verification of the Borrower's employment history for the previous two years is not required if *all* of the following conditions are met:

- the current employer confirms a two-year employment history, or a paystub reflects a hiring date;
- only base pay is used to qualify (no overtime, bonuses, or tips); and
- the Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Lender must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- IRS Form W-2(s);
- VOE(s);
- electronic verification acceptable to FHA; and
- evidence supporting enrollment in school or the military during the most recent two full years.

(D) Primary Employment

(1) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

(2) Standard

The Lender may use primary income as Effective Income.

(3) Calculation of Effective Income

(a) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, the Lender must use the current salary to calculate Effective Income.

(b) Hourly

For employees who are paid hourly and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.

(E) Part-Time Employment

(1) Definition

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

(2) Standard

The Lender may use part-time income as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

(3) Calculation of Effective Income

The Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use a 12-month average of hours at the current pay rate.

(F) Overtime, Bonus, or Tip Income

(1) Definition

Overtime, Bonus, or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(2) Standard

The Lender may use Overtime, Bonus, or Tip Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime, Bonus, or Tip Income less than two years may be considered Effective Income if the Lender documents that the Overtime, Bonus, or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(3) Calculation of Effective Income

For employees with Overtime, Bonus, or Tip Income, the Lender must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime, Bonus, or Tip Income from the current year decreases by 20 percent or more from the previous year, the Lender must use the current year's income.

(G) Seasonal Employment

(1) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(2) Standard

The Lender may consider Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Lender may consider unemployment income as Effective Income for those with effective seasonal employment income.

(3) Required Documentation

For seasonal employees with unemployment income, the Lender must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

(4) Calculation of Effective Income

For employees with Employment Income from Seasonal Employment, the Lender must average the income earned over the previous two full years to calculate Effective Income.

(H) Employer Housing Subsidy

(1) Definition

Employer Housing Subsidy refers to employer-provided loan assistance.

(2) Standard

The Lender may utilize Employer Housing Subsidy as Effective Income.

(3) Required Documentation

The Lender must verify and document the existence and the amount of the housing subsidy.

(4) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, the Lender may add the Employer Housing Subsidy to the total Effective Income but may not use it to offset the Loan Payment.

(I) Employed by Family-Owned Business

(1) Definition

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower owns less than 25 percent.

(2) Standard

The Lender may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(3) Required Documentation

The Lender must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business Tax Returns or Schedule K-1 (IRS Form 1065), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the Lender must obtain copies of signed personal Tax Returns or tax transcripts.

(4) Calculation of Effective Income

(a) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Lender must use the current salary to calculate Effective Income.

(b) Hourly

For employees who are paid hourly and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.

(J) Commission Income

(1) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(2) Standard

The Lender may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

(3) Required Documentation

For Commission Income less than or equal to 25 percent of the Borrower's total earnings, the Lender must use traditional or alternative employment documentation.

For Commission Income greater than 25 percent of the Borrower's total earnings, the Lender must obtain signed Tax Returns, including all applicable schedules, for the last two years. In lieu of signed Tax Returns from the Borrower, the Lender may obtain a signed IRS Form 4506, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, and tax transcripts directly from the IRS.

(4) Calculation of Effective Income

The Lender must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. The Lender must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

(5) Unreimbursed Expenses

The Lender must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's IRS Form 1040, *U.S. Individual Income Tax Return*, review Appendix 2.0 – Analyzing IRS Forms.

(K) Self-Employment Income

(1) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They are:

- sole proprietorships;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

(2) Standard

(a) Minimum Length of Self-Employment

The Lender may consider self-employed borrower income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Lender may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(b) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Lender must document that the business income is now stable.

A Lender may consider income as stable after a 20 percent reduction if the Lender can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

(3) Required Documentation

(a) Individual and Business Tax Returns

The Lender must obtain complete individual and business Tax Returns for the most recent two years, including all schedules.

In lieu of signed individual or business Tax Returns from the Borrower, the Lender may obtain a signed IRS Form 4506, IRS Form 4506-C, or IRS Form 8821 and tax transcripts directly from the IRS.

(b) Profit and Loss Statements and Balance Sheets

The Lender must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end Tax Return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two-year average of Tax Returns, an audited P&L or signed quarterly Tax Return must be obtained from the IRS.

(c) Business Credit Reports

The Lender must obtain a business credit report for all corporations and "S" corporations.

(4) Calculation of Effective Income

The Lender must analyze the Borrower's Tax Returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Appendix 2.0 – Analyzing IRS Forms.

The Lender must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

(L) Additional Required Analysis of Stability of Employment Income

(1) Frequent Changes in Employment

If the Borrower has frequently changed jobs more than three times in the prior 12-month period, or has changed lines of work, the Lender must take additional steps to verify and document the stability of the Borrower's Employment Income. The Lender must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(2) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Lender may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- the Borrower has a two-year work history prior to the absence from employment using standard or alternative employment verification.

(3) Addressing Temporary Reduction in Income

(a) Standard

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Lender may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Loan, taking into account any reduction of income due to the circumstance.

For Borrowers returning to work before or at the time of the first Loan Payment due date, the Lender may use the Borrower's pre-leave income.

For Borrowers returning to work after the first Loan Payment due date, the Lender may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement, up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

(b) Required Documentation

The Lender must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by the current employer confirming the Borrower's eligibility to return to current employer at the same level of hours/earnings; and
- documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through the intended date of return to work with their current employer.

(M) Other Sources of Effective Income

(1) Disability Benefits

(a) Definition

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

(b) Required Documentation

The Lender must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Lender must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of loan application, the Lender should treat that income as a temporary reduction in income.

If the Notice of Award or equivalent document does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue. The Lender may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the Lender inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(i) Social Security Disability

For Social Security Disability income, including Supplemental Security Income (SSI), the Lender must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

(ii) Department of Veterans Affairs Disability

For VA disability benefits, the Lender must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue for at least three years.

*(iii)*Private Disability

For private disability benefits, the Lender must obtain documentation from the private disability insurance provider showing the amount of the

assistance and the expiration date of the benefits, if any, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(c) Calculation of Effective Income

The Lender must use the most recent amount of benefits received to calculate Effective Income.

(2) Alimony, Child Support, and/or Maintenance Income

(a) Definition

Alimony, Child Support, and/or Maintenance Income refers to income received from a former spouse or partner or from a noncustodial parent of the Borrower's minor dependent.

(b) Required Documentation

The Lender must obtain a copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the Lender must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The Lender must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or Tax Returns.

The Lender must provide evidence that the claimed income will continue for at least three years. Use the front and pertinent pages of the divorce decree/ settlement agreement and/or court order showing the financial details.

(c) Calculation of Effective Income

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support, and/or Maintenance Income for the most recent three months, the Lender may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support, and/or Maintenance Income for the most

recent six months, the Lender may use the current payment to calculate Effective Income.

If the alimony, child support or other maintenance payments have not been consistently received for the most recent six months, the Lender must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support, and/or Maintenance Income has been received for less than two years, the Lender must use the average over the time of receipt.

(3) Military Income

(a) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The Lender may not use education benefits as Effective Income.

(b) Required Documentation

The Lender must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Loan, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(c) Calculation of Effective Income

The Lender must use the current amount of Military Income received to calculate Effective Income.

(4) Mortgage Credit Certificates

(a) Definition

Mortgage Credit Certificates refer to government loan payment subsidies other than Section 8 Housing Choice Vouchers.

(b) Required Documentation

The Lender must verify and document that the Governmental Entity subsidizes the Borrower's Loan Payments either through direct payments or tax rebates.

(c) Calculation of Effective Income

Mortgage credit certificate income that is not used to directly offset the Loan Payment before calculating the qualifying ratio may be included as Effective Income. The Lender must use the current subsidy rate to calculate the Effective Income.

The mortgage credit certificate must not be used to offset the Title I Property Improvement Loan Payment.

(5) Section 8 Housing Choice Vouchers

(a) Definition

Section 8 Housing Choice Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

(b) Required Documentation

The Lender must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Lender may consider that this income is reasonably likely to continue for three years.

(c) Calculation of Effective Income

The Lender may only use Section 8 Housing Choice Voucher subsidies as Effective Income if it is not used as an offset to the monthly Loan Payment. The Lender must use the current subsidy rate to calculate the Effective Income.

The Section 8 Housing Choice Voucher must not be used to offset the Title I Property Improvement Loan Payment.

(6) Other Public Assistance

(a) Definition

Public Assistance refers to income received from government assistance programs.

(b) Required Documentation

Lenders must verify and document the income received from the government agency.

If any Public Assistance income is due to expire within three years from the date of loan application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue.

(c) Calculation of Effective Income

The Lender must use the current rate of Public Assistance received to calculate Effective Income.

(7) Automobile Allowance

(a) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(b) Required Documentation

The Lender must verify and document the Automobile Allowance received from the employer for the previous two years.

The Lender must also obtain IRS Form 2106, *Employee Business Expenses*, for the previous two years.

(c) Calculation of Effective Income

The Lender must determine the portion of the allowance that can be considered Effective Income.

The Lender must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.

If the Borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:

- the Borrower's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

(8) Retirement Income

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(a) Social Security Income

(i) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(ii) Required Documentation

The Lender must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three-year period from the date of form HUD-92900-TI.

For SSI, the Lender must obtain any one of the following documents:

- Tax Returns (minimum one year);
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S.

In addition to verification of income, the Lender must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of form HUD-92900-TI that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the Lender must consider the income effective and reasonably likely to continue. The Lender should not request additional documentation from the Borrower to demonstrate continuance of SSA income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(iii) Calculation of Effective Income

The Lender must use the current amount of Social Security Income received to calculate Effective Income.

(b) Pension

(i) Definition

Pension refers to income received from the Borrower's former employer(s).

(ii) Required Documentation

The Lender must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

The Lender must obtain any one of the following documents:

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's pension/retirement letter from the former employer.

(iii) Calculation of Effective Income

The Lender must use the current amount of Pension income received to calculate Effective Income.

(c) Individual Retirement Account and 401(k)

(i) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(ii) Required Documentation

The Lender must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

The Lender must obtain the most recent IRA/401(k) statement and any one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income.

(iii) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Lender must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Lender must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Lender must use the average over the time of receipt.

(9) Rental Income

(a) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(b) Rental Income Received from the Subject Property

(i) Standard

The Lender may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

Net Rental Income may be included in the calculation of the Borrower's DTI ratio if it is stable, properly documented, and expected to continue for at least two years.

Rental Income may be considered if it is shown on an executed lease or the Borrower's Tax Return.

(ii) Required Documentation

Lenders must obtain Tax Returns and all schedules, including Schedule E to IRS Form 1040.

The Lender must also obtain a current lease or other documentation to verify with reasonable assurance that the Rental Income shown on the Tax Return is still being received and can be expected to continue.

(iii) Calculation of Effective Income

The Lender must add the net Rental Income to the Borrower's gross income. The Lender must calculate the Rental Income by averaging the net amount shown on the Schedule E of federal tax returns.

Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

The Lender may not reduce the Borrower's total Title I Loan Payment by the net subject property Rental Income.

(c) Rental Income from Owner-Occupied Properties

If a Borrower resides in one unit of a two- to four-unit Property, Rental Income from the additional units may be added to the gross income. The Rental Income must not be used to offset the Loan, taxes, insurance, or other shared expense for the Property; these items must be considered in the DTI ratio.

The net Rental Income may be verified with an executed one-year lease or the Borrower's Schedule E. The net Rental Income from Schedule E may be increased by the amount of the loan interest, taxes, insurance, and depreciation for the rental unit(s).

(d) Boarders of the Subject Property

(i) **Definition**

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(ii) **Standard**

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the Tax Return and the Borrower is currently receiving boarder income.

(iii) **Required Documentation**

The Lender must obtain two years of the Borrower's Tax Returns evidencing income from Boarders and the current lease.

(iv) **Calculation of Effective Income**

The Lender must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(10) Investment Income

(a) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(b) Required Documentation

The Lender must verify and document the Borrower's Investment Income by obtaining Tax Returns for the previous two years and the most recent account statement.

(c) Calculation of Effective Income

The Lender must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The Lender must subtract any of the assets needed to fund the property improvement project prior to calculating any interest or dividend income.

(11) Capital Gains and Losses

(a) Definitions

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

(b) Standard

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

(c) Required Documentation

Three years' Tax Returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as Effective Income; or
- consistently shows a loss, it must be deducted from the total income.

(12) Expected Income

(a) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of loan closing.

(b) Standard

The Lender may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(c) Required Documentation

The Lender must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of loan closing. For expected Retirement Income, the Lender must verify the amount and that it is guaranteed to begin within 60 Days of the loan closing.

(d) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. The Lender must also verify that the Borrower will have sufficient income or Cash Reserves to support the Loan Payment and any other obligations between loan closing and the beginning of the receipt of the income.

(13) Trust Accounts

(a) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(b) Required Documentation

The Lender must verify and document the existence of the Trust Agreement or other trustee statement. The Lender must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The Lender must verify that regular payments will continue for at least the first three years of the loan term.

(c) Calculation of Effective Income

The Lender must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(14) Annuities or Similar

(a) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(b) Required Documentation

The Lender must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Loan. The Lender must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

(c) Calculation of Effective Income

The Lender must use the current rate of the annuity to calculate Effective Income.

The Lender must subtract any of the assets used for the MCI to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.

(15) Notes Receivable Income

(a) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or other similar credit instrument.

(b) Required Documentation

The Lender must verify and document the existence of the Note. The Lender must also verify and document that payments have been consistently received for the previous 12 months by obtaining Tax Returns, deposit slips, or canceled checks and that such payments are guaranteed to continue for the first three years of the Loan.

(c) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Lender must use the current rate of income to

calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Lender must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(16) Nontaxable Income (Grossing Up)

(a) Definition

Nontaxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and public assistance payments;
- Child Support;
- Section 8 Housing Choice Vouchers
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(b) Required Documentation

The Lender must document and support the amount of income to be Grossed Up for any Nontaxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(c) Calculation of Effective Income

The amount of continuing tax savings attributed to Nontaxable Income may be added to the Borrower's gross income.

The percentage of Nontaxable Income that may be added cannot exceed 15 percent. Higher tax rates may be used based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a Tax Return for the previous tax reporting period, the Lender may Gross Up the Nontaxable Income by 15 percent.

The Lender may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

iii. Asset Requirements

(A) General Asset Requirements

If a contract or work estimate exceeds the amount of the Title I Loan by the lesser of $1,000 or 5 percent of the loan amount, the Lender must verify the source of the

additional funds needed to complete the work and for fees and charges that may not be financed in the Title I Loan.

(1) No Minimum Downpayment Required

A Title I Property Improvement Loan does not require a minimum borrower payment toward eligible improvements and/or loan fees.

(2) Cash to Close and Reserves

The Lender must document funds in excess of the lesser of $1,000 or 5 percent of the loan amount that are used for the purpose of qualifying for or closing the Loan, including those to satisfy debt or pay costs outside of closing.

(a) Determining the Amount Needed for Closing (Initial Payment)

For a Title I Property Improvement Loan, the amount of cash needed by the Borrower to close is the difference between the total cost of the property improvements plus non-financed fees and charges, and the Total Loan Amount.

For a refinance transaction, the amount of cash needed by the Borrower to close a Property Improvement Loan is the difference between the total Payoff plus non-financed fees and charges associated with the new Loan, and the total new Title I loan amount.

(b) Initial Payment

(i) Definition

Initial Payment refers to the amount of money that a Borrower must pay for Non-financeable Fees and Charges and to fund any portion of the improvement work not covered by the loan amount.

(ii) Standard

The Lender must verify and document the source of the Initial Payment if it exceeds 5 percent of the loan amount. This requirement applies to money from all sources including funds from a Borrower's savings, a Gift, or a secured loan.

However, if the case binder includes asset verification that reveals large deposits, the Lender must obtain a credible explanation and document that the funds came from an acceptable source.

In addition to the Initial Payment, additional Borrower expenses not financed into the Loan must be included in the total amount of cash that the Borrower must provide at loan settlement.

(c) Fees and Charges

The Lender or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Loan, in compliance with permissible fees and charges described in this section. Fees and charges must not exceed the actual costs.

(3) Financeable Fees and Charges

The following fees and charges incurred in connection with a Property Improvement Loan may be included in the loan amount provided their inclusion does not increase the total principal balance beyond the maximum loan amount permitted:

- the origination fee, not to exceed amount allowed for points and fees in HUD's regulations at § 203.19(b)(1) (see 12 CFR § 1026.43(e)(3)) as of January 10, 2014, indexed for inflation: currently 8 percent of the total loan amount for a loan amount less than $12,862; $1,029 for a total loan amount greater than or equal to $12,862 but less than $20,578.99; and 5 percent of the total loan amount for a loan amount greater than or equal to $20,579. The origination fee includes Lender-related costs of doing business. Origination expenses for document preparation, copying, processing, underwriting, and courier fees and similar origination expenses are part the origination fee and must not be charged separately;
- fees for architectural and engineering services;
- building permits;
- the credit report;
- a fee for the services of a qualified third-party closing agent to act on behalf of a Lender in closing a Direct Loan transaction;
- title examination;
- fees for determining whether the Property is in an SFHA;
- recording fees, recording taxes, filing fees, and documentary stamp taxes; and
- a fee for inspection of the Property by a Lender or its agent, not to exceed $250.

(4) Non-financeable Fees and Charges

The following are fees and charges in connection with the Title I Loan that must **not** be financed into the Title I Loan or advanced by the Dealer, contractor or any party to the loan transaction.

When applicable, these costs must be included in the total amount of cash that the Borrower must provide at loan settlement:

- Discount Points to be paid by a Borrower to a Lender;
- Title I Loan annual insurance premiums;
- premiums for Flood Insurance, if Flood Insurance is required;
- optional insurance premiums including for credit life and disability;
- title insurance;
- monthly escrow payment amounts for property tax and hazard insurance, and Flood Insurance;
- other fees necessary to establish the validity of a lien;
- survey costs;
- a handling charge to refinance an existing Title I Loan, not to exceed 1 percent of the new loan amount;
- an assumption fee not to exceed 1 percent of the unpaid principal balance on the Loan;
- a fee for recording a release of the Lender's security in the Property, if permitted under state law; and
- other customary and reasonable closing costs necessary to close the loan.

(5) Fees and Charges that May Not be Paid

(a) Referral Fees

A Referral Fee is a payment for recommending the services of a Lender or contractor/Dealer.

Neither the Lender nor the Borrower may pay a referral fee to any Dealer, home manufacturer, contractor, supplier, real estate broker, loan broker, or any other party in connection with the origination of a Loan insured under Title I.

(b) Third Party Origination Fees

Lenders may negotiate payment with sponsored Third-Party Originators (TPO) for their origination of Title I Loans, but the fee must not be charged to the Borrower.

The insuring Lender may pass on the origination fee to its TPO.

Title I Lenders engaged with sponsored TPOs must comply with the standards for Sponsor/Sponsored Third-Party Originator Relationship.

(6) Premium Pricing on FHA-Insured Loans

Premium Pricing refers to a credit from a Lender for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation.

The funds derived from a premium priced Loan:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Loan Payments, or Judgments.

(7) Interested Party Contributions on the Settlement Statement

The Lender may apply Interested Party credits to the closing costs and prepaid items, including any items Paid Outside Closing (POC).

The Lender must identify the total Interested Party credits on the Settlement Statement or other similar legal document. The Lender must identify each item paid by Interested Party Contributions.

(8) Minimum Verified and Documented Cash Reserves

(a) Definition

Cash Reserves include all non-retirement liquid assets available for withdrawal or liquidation from all financial institutions.

(b) Standard

A minimum amount of Cash Reserves is not required for the Title I Property Improvement Loan program.

Lenders must document Cash Reserves as required for Acceptable Compensating Factors.

(B) Sources of Funds

(1) Checking and Savings Accounts

(a) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allow for withdrawals and deposits.

(b) Standard

The Lender must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the loan amount, the Lender must obtain documentation of the deposits.

(c) Required Documentation

Documentation must show that at least one Borrower is an owner of the account.

(i) Traditional Documentation

The Lender must obtain a written Verification of Deposit (VOD) and the Borrower's most recent statement for each account.

(ii) Alternative Documentation

If a VOD is not obtained, a statement provided by the financial institution showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Lender must obtain statement(s) for the most recent two months.

(iii) Source of Large Deposit

If the Lender finds a large, unexplained increase in a Borrower's account balance, the Lender must request an explanation from the Borrower and verify the source of the funds. The Lender must evaluate the Borrower's explanation as part of the underwriting process.

(2) Cash on Hand

(a) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(b) Standard

The Lender must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the Lender or retailer.

(c) Required Documentation

The Lender must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Lender must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

(3) Retirement Accounts

(a) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(b) Standard

The Lender may include up to 60 percent of the value of assets, less any existing Loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plans, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

(c) Required Documentation

The Lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(4) Stocks and Bonds

(a) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(b) Standard

The Lender must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the Lender must determine the current value of the stocks and bonds through third-party verification. Government-issued savings bonds are valued at the original

purchase price, unless the Lender verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(c) Required Documentation

The Lender must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account, the Lender must obtain a copy of each stock or bond certificate.

(5) Private Savings Clubs

(a) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(b) Standard

The Lender may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The Lender must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Lender must also determine that the received funds were reasonably accumulated, and not borrowed.

(c) Required Documentation

The Lender must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(6) Gifts (Personal and Equity)

(a) Definition

Gifts refer to contributions of cash or equity with no expectation of repayment.

(b) Standard for Gifts

(i) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;

- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization; or
- a governmental agency or public entity that has a program providing homeownership assistance to:
  - Low- to Moderate-Income families; or
  - first-time homebuyers.

The gift donor may not be a person or entity with an interest in the transaction, such as the contractor, Dealer, or any person or any other affiliated entity. Gifts from these sources are not permitted on Title I Property Improvement Loans.

(ii) **Reserves**

Gift funds in excess of funds needed for Initial Payment must not be considered as Reserves.

(iii)**Donor's Source of Funds**

Cash on Hand is not an acceptable source of donor gift funds.

(c) Required Documentation

The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Lender must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below.

- For Gifts that will be verified prior to settlement, the Lender must obtain one of the following:
  - the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account;
  - a copy of the donor's canceled check and evidence of deposit into the Borrower's deposit slip;
  - a copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
  - evidence of the electronic transfer of funds from the donor's account to the Borrower's account.

- For Gifts that will be verified at settlement, the Lender must obtain one of the following evidencing payment to the settlement agent:
  - evidence of electronic transfer of funds from the donor's account;
  - bank certified check;
  - cashier's check; or
  - other official bank check.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Lender must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(7) Interested Party Contributions

(a) Definitions

Interested Parties refer to sellers, real estate agents, builders, developers, lenders, Third-Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs, and Discount Points.

Discount Points refer to a charge from the Lender for the interest rate chosen. They can be paid by the Borrower and become part of the total cash required to close.

(b) Standard

Interested Party Contributions must not exceed actual loan costs or result in cash to the Borrower.

Interested Parties may contribute up to 6 percent of the loan amount toward the Borrower's loan fees, including the origination fee and Fees and Charges.

(c) Required Documentation

The Lender must identify the total Interested Party credits on the Settlement Statement or similar legal document, and the sales contract. The Lender must identify each item paid by Interested Party Contributions.

(d) Exceptions to Interested Party Contributions to Address Premium Pricing

Premium Pricing credits from the Lender or TPO are excluded from the 6 percent limit provided the Lender or TPO is not the seller, real estate agent, builder, or developer.

(8) Split Financing

(a) Definition

Split Financing refers to a loan used in conjunction with the Title I Property Improvement Loan to finance the improvement project.

(b) Standard

If a contract or work estimate exceeds the amount of the Title I Loan, the Lender must verify the source of the additional funds needed to complete the work.

If the additional funds are borrowed or will be borrowed, the monthly repayment amount must be included in the Borrower's qualifying ratio.

When the proceeds of other financing secure the subject Property, Lenders must ensure that Title I Lien Priority requirements are met.

(c) Required Documentation

The Lender must obtain from the provider of any other financing:

- documentation showing the amount of funds provided to the Borrower for each transaction, and
- copies of the loan instruments evidencing the monthly payment and loan term.

If the term of the loan is six months or more, the Lender must include the monthly payment in the qualifying ratio.

iv. Final Underwriting Decision

The underwriter is ultimately responsible for making an underwriting decision on behalf of their Lender in compliance with HUD requirements.

Before making a final determination on the creditworthiness of the Borrower, the Lender must conduct a face-to-face or telephone interview with the Borrower and any co-maker or Co-signer to resolve any discrepancies in the information on the credit application and to ensure that the information is accurate and complete.

(A) Specific Underwriter Responsibilities

The underwriter must review each Loan as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Loan Payments in order to make an underwriting decision. The underwriter must evaluate the totality of the Borrower's circumstances

and the impact of layering risks on the probability that a Borrower will be able to repay the loan obligation according to the terms of the Loan.

As the responsible party, the underwriter must:

- perform credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the property improvements, the Borrower's capacity to repay the Loan, and the overall acceptability of the Loan for FHA insurance;
- identify any inconsistencies in information obtained by the Lender in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Loan;
- resolve all inconsistencies identified before approving the Borrower's application; and
- document the inconsistencies and the resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

(B) Underwriting of Credit and Debt

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior.

(C) Underwriting of Income

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation. See Income Requirements.

(D) Underwriting of Assets

The underwriter must review the assets of a Borrower required to close the Loan and verify that they have been supported with the proper documentation. See Asset Requirements.

(E) Verifying Loan Amount and Annual Insurance Premium

The underwriter must review the loan amount and annual insurance premium. The underwriter must ensure that the loan amount does not exceed Title I Property Improvement Nationwide Loan Limits, or the total improvement cost, as reflected in the work contract and supporting documentation. See Improvement Contract and Required Documentation.

(F) Calculating Qualifying Ratio

For all transactions, except Streamline Refinances, the underwriter must calculate the Borrower's DTI, and verify compliance with the maximum ratio requirements.

(1) Calculating the Total Debt

The Borrower's total property payment expense includes:

- the monthly payment on the Property Improvement Loan;
- all other Mortgage Payments on the Property, including:
  - real estate taxes;
  - hazard insurance;
  - Flood Insurance, as applicable;
  - annual insurance premium;
  - Homeowners' Association (HOA) or manufactured home community or park association fees or expenses;
  - lot rent; and
  - special assessments.

(2) Calculating Total Debt Payment

The total fixed payment includes:

- the total monthly property payment; and
- monthly obligations on all other debts and liabilities.

(3) Approvable Qualifying Ratio

The maximum Total Debt Payment to Effective Income Ratio, or DTI, for a Title I Property Improvement Loan is 45 percent, unless Acceptable Compensating Factors are met.

(4) Acceptable Compensating Factors

The maximum DTI may exceed 45 percent up to a maximum of 47 percent provided the Borrower has at least one compensating factor.

The following describes the compensating factors and required documentation that may be used to justify approval of Loans with the credit sufficiency and qualifying ratio described above.

(a) Verified and Documented Cash Reserves

Verified and documented Cash Reserves may be cited as a compensating factor when the Cash Reserves are equal to or exceed three total monthly Loan Payments.

Cash Reserves are calculated as the Borrower's total assets less:

- the Initial Payment;
- Gifts; and
- borrowed funds.

(b) Significant Additional Income Not Reflected in Effective Income

Additional income or benefits not included in effective gross income that directly impacts the applicant's ability to meet financial obligations include:

- bonuses, part-time or Seasonal Employment that is not reflected in Effective Income;
- employee benefits (company car, clothing allowance); and
- public benefits (nutritional assistance/food stamps/seasonal unemployment).

Significant additional income can be cited as a compensating factor subject to the following requirements:

- the Lender must verify and document that the Borrower has received this income, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratio to not more than 47.

(c) Potential for Increased Future Earnings

A Borrower that has potential for increased future earnings may be cited as a compensating factor with documented justification, such as job training or education in the applicant's profession.

(d) Secondary Wage Earner Potential (Employment Relocation)

Potential income for a secondary wage earner may be cited as a compensating factor under the following condition: the secondary wage earner has accompanied a primary wage earner, who is purchasing a property as a result of a recent employment relocation.

The case binder must document all of the following:

- evidence that the primary wage earner relocated for a new job;
- at least a 12 month work history for the secondary wage earner, prior to relocation; and
- the prospects of available employment.

(e) Residual Income

Residual income may be cited as a compensating factor for owner-occupied Properties, provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found in the

Table of Residual Incomes By Region in the Department of Veterans Affairs (VA) *Lenders Handbook* - VA Pamphlet 26-7, Chapter 4.9 b and e.

(i) Calculating Residual Income

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- proposed total Loan Payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Nontaxable Income.

If available, Lenders must use Tax Returns and where applicable, state tax returns, from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Lenders may rely upon current pay stubs.

For estimated maintenance and utilities, Lenders must multiply the Gross Living Area (GLA) of the Property by the maintenance and utility factor found in the *Lenders Handbook* - VA Pamphlet 26-7.

(ii) Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, the Lender must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."

Exception

The Lender may omit any individuals from "family size" who are fully supported by a source of verified income that is not included in the Effective Income in the loan analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table provided in *Lenders Handbook* - VA Pamphlet 26-7, select the applicable loan amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

(f) Energy Efficient Homes

Energy Efficient Homes (EEH) may be cited as a compensating factor when the Property meets one of the following conditions:

- the home *currently* scores a "6" or higher on the Home Energy Score scale;
- homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home's score to a "6" or higher will be completed in connection with the subject loan; or
- Manufactured Home that is certified as ENERGY STAR to the Quality Assurance Provider and is evidenced by a photo of the ENERGY STAR label that is affixed inside the home, commonly near the HUD Data Plate or inside the home's electric panel cover.

Required Documentation

A copy of the Home Energy Score Report must be included in the case binder.

(G) Borrower Approval or Denial

(1) Re-underwriting

Before closing a Title I Property Improvement Loan, the Lender must re-underwrite a Loan when any data element of the Loan changes and/or new Borrower information becomes available.

(2) Required Documentation of Final Underwriting Review Decision

The underwriter must complete the underwriter report or worksheet to evidence their final underwriting decision. For cases involving Loans to HUD employees, the Lender submits the complete underwriting package to FHA prior to closing.

(3) HUD Employee Loans

If the Loan involves a HUD employee, the Lender must condition the Loan on the approval of the Loan by HUD. The Lender must submit the underwritten loan application package to the Director of the FOC for final underwriting approval.

(4) Responsibilities upon Denial

When a Loan is denied, the Lender must comply with all requirements of the FCRA, and the ECOA, as implemented by Regulation B (12 CFR Part 1002).

e. Closing and Disbursement (05/08/2025)

i. Borrower Identification

The Lender must include a statement that it has verified the Borrower's identity using valid government-issued photo identification at or prior to closing the Loan, or the Lender may choose to include a copy of such photo identification as documentation.

ii. Lender Closing Requirements

Before disbursing the proceeds of a Title I Property Improvement Loan, the Lender must ensure, at a minimum, that the following conditions have been met:

- the Borrower is eligible for a Title I Property Improvement Loan;
- the interest of the Borrower in the Property is valid, through such title or other evidence as are generally acceptable to prudent lending institutions and leading attorneys in the community where the Property is located;
- the proposed use of the loan proceeds is eligible and adequately documented;
- the case binder contains a valid Note and security instrument (if required); and
- all other required documents relating to the loan transaction.

(A) Required Documents for Case Binder

The Lender must confirm that the case binder is complete and that the following documents, if applicable to the Loan, have been obtained for retention in the case binder. The required documents are:

- *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-TI;
- proof of identity and SSN verification;
- Notice to Borrower of HUD's Role in Title I Loans;
- work contracts, estimates, and/or invoices describing the improvements;
- evidence of the Borrower's interest in the Property;
- Settlement Statement, or similar legal document, reflecting Disbursement(s), itemized loan fees and charges;
- Title I Loan summary/underwriter's worksheet detailing the amount financed, calculation of qualifying ratio, and any compensating factors used;
- Note or assigned retail installment contract;
- security instrument (if applicable);
- Truth-in-Lending Disclosure (if applicable);
- credit report(s);
- loan verification if not reflected on credit report;
- non-traditional references, if applicable;
- explanation for any adverse credit information and inquiries within recent 90 Days;
- asset verification including a worksheet or other document with Initial Payment itemization;

- gift letter (if applicable);
- verification of employment;
- income verification;
- clearance in HUD's LDP List, and HUD's CAIVRS;
- form HUD-56002, *Completion Certificate for Property Improvements*;
- inspection report for improvements (required for loan amounts greater than $7500);
- IRS Form 4506 or 4506-C executed by the Borrower;
- Life of Loan Flood Certification;
- payment history on subject Loan if Loan Payments have begun; and
- Lender processing and servicing notes.

(B) Title Insurance

At its option, the Lender may obtain title insurance for Property treated as real estate.

(C) Disbursement Date

Disbursement Date refers to the date proceeds of the Loan are made available to the Borrower.

(D) Signatures

The Lender must ensure that the loan Note, and all closing documents are signed by all required parties in accordance with the Borrower Eligibility.

(E) Use of Power of Attorney at Closing

A Borrower may designate an attorney-in-fact to use a POA to sign documents on their behalf at closing, including the Disclosure Notice to Borrower.

Unless required by applicable state law, as stated below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- the Lender, or any employee or Affiliate;
- the loan originator, or employer or employee;
- the title insurance company providing the title insurance policy, the title agent closing the Loan, or any of their Affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

Exception

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA expressly authorizes the attorney-in-fact to execute the required documents on behalf of a Borrower, only if the Borrower, to the satisfaction

of the attorney-in-fact in a recorded interactive session conducted via the Internet, has:

- confirmed their identity; and
- reaffirmed, after an opportunity to review the required loan documents, their agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required Loan by such attorney-in-fact.

The Lender must obtain a copy of the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-TI signed by the Borrower or POA in accordance with Signature Requirements for all Application Forms.

(F) Electronic Signatures

See Policy on Use of Electronic Signatures.

(G) Disbursement of Loan Proceeds

(1) Standard

The Lender must verify that loan proceeds are disbursed in the proper amount.

The Lender must disburse the loan proceeds:

- solely to the Borrower;
- jointly to the Borrower and the Dealer; or
- jointly to the Borrower and other parties to the transaction.

When the Property Improvement Loan is made by or on behalf of a state or local government agency or a nonprofit organization:

- form HUD-56002 is not required;
- the loan proceeds are held in an escrow account pending completion of the improvements; and
- the loan proceeds may be disbursed to the contractor from the escrow account in stages with the written approval of the Borrower and based upon the percentage of work completed.

(2) Required Documentation

The Lender must obtain and include in the case binder the final disbursement document or other legal documentation detailing fees, charges, and Disbursement and to whom funds were disbursed.

iii. Closing Documents

(A) Note

(1) Definition

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence the secured Loan.

(2) Standard

(a) Form

The Lender must ensure that the Note complies with all applicable state and local requirements for creating a recordable and enforceable Loan, and an enforceable Note. HUD does not provide Note forms or prescribe a particular Note format. The Lender must ensure that the Note and all other documents evidencing the loan transaction are in compliance with applicable federal, state, and local laws.

The Note must:

- state the principal amount of the Loan and the annual rate of interest;
- bear the signature of each Borrower and of any co-maker or Co-signer; and
- be valid and enforceable against the Borrower and any co-maker or Co-signer.

(b) Interest Rate

The interest rate is negotiated between the Lender and the Borrower. The interest rate must be fixed for the full term of the Loan and must be stated in the Note or retail sales installment contract. Interest on the Loan must accrue from the date of the Loan, and be calculated on a simple interest basis.

Adjustable Rate Mortgage products are not permitted for FHA Title I Property Improvement Loans.

(c) Temporary Interest Rate Buydown Requirements

Temporary interest rate buydowns are not permitted.

(d) Signature

The Borrower and any co-maker or Co-signer must execute the Note for the full amount of the loan obligation. Although the Borrower may sign the Note on an earlier date, the date of the Loan must be the date that the loan proceeds

are disbursed by the Loan. Such date must be entered on the Note when Disbursement occurs.

(e) Payments on the Loan

The Note must provide for equal installment payments due monthly. The Note may provide for the first and/or final payments to vary in amount but not to exceed 1.5 times the regular installment.

Where the Borrower has an irregular flow of income the Note may be payable at quarterly or semi-annual intervals corresponding with the Borrower's flow of income.

The first scheduled Loan Payment must be due no later than two months from the date of the Loan.

(f) Default Provision

The Note must contain a provision for acceleration of maturity, at the option of the holder, upon a monetary Default by the Borrower.

(g) Late Charges

The Note may provide for a Late Charge unless specifically precluded by state law. The Late Charge may be imposed only for a payment which is in arrears for the greater of 15 Days or the number of Days required by applicable state law. Late Charges must be billed to the Borrower or reflected in the payment coupon. Evidence of Late Charges paid by the Borrower must be in the case binder if an insurance claim is made.

(i) Amount of Late Charge

The Late Charge must not exceed the lesser of 5 percent for each installment of P&I, up to a maximum of $10 per installment, or the maximum amount permitted by applicable state law.

(ii) Method of Payment

Payment of any Late Charge cannot be deducted from the monthly payment of P&I. Late payment fees must be calculated and shown as an additional charge to the Borrower.

(iii) Daily Interest in Lieu of Late Charges

In lieu of Late Charges, the Note may provide for interest to accrue on installments in arrears, continuing daily, based on the interest rate in the Note.

(h) Prepayment Provision

Borrowers cannot be charged a prepayment penalty on any FHA Title I Property Improvement Loan.

Lenders may charge reasonable and customary charges for recording a release of a security interest in the Property if permitted by state law.

(B) Security Instrument

(1) Definition

Security Instrument refers to any legal instrument that is commonly used in a jurisdiction in connection with a Loan secured by a Title I Property Improvement Loan.

(2) Standard

Title I Property Improvement Loans must be secured against the subject Property if required by Valid Lien Requirements.

When lien security is required, the Loan must be secured by a recorded lien on the improved subject Property and evidenced by a Mortgage or deed of trust, as governed by state laws. A chattel mortgage, financing statement, Uniform Commercial Code (UCC)-1 filing, or similar lien against the property improvements only is not acceptable.

(3) Required Documentation

The lien must be evidenced by a Loan or Mortgage, executed by the Borrower and all other owners in Fee Simple.

(4) Executing the Security Instrument

The individual borrower name(s) must appear on the security instrument, property deed, and title.

While an eligible Borrower need only have a “one-half” interest in the Property the Borrower plus all other owners or parties who have a legal Fee Simple interest in the Property must execute the security instrument in order to establish a valid and enforceable lien.

If a Borrower is a lessee, the Borrower and all deeded owners of the Property must execute the Loan.

If a Borrower is a land installment contract purchaser, the Borrower, all deeded owners, and all intervening contract sellers must execute the security instrument.

(5) Recording and Perfecting the Security

The Lender must ensure that the legal description of the Property as recited in the Loan (or deed of trust) is accurate and that the Loan creates a valid and enforceable lien on the Real Property in the jurisdiction in which the Property is located. The Loan must be recorded and perfected in the manner specified by applicable state law in the state where the Property is located.

f. Post-closing and Insurance (05/09/2022)

i. Disbursement Requirements

(A) Direct Loans

For Direct Loans, the Lender disburses the funds before the work is started.

(B) Dealer Loans

For a Dealer Loan, the Lender disburses the loan funds only after the work is completed.

(1) Standard

Before Disbursement, the Lender must obtain form HUD-56002 executed by each Borrower, and the Dealer/contractor.

The Lender must conduct a telephone interview with the Borrower after the Borrower(s) and the Dealer/contractor sign the form HUD-56002. The telephone interview must confirm that:

- the Dealer has completed the work;
- the work is satisfactory; and
- the form HUD-56002 was signed by the Borrower and the Dealer.

The pre-Disbursement telephone interview with the Borrower(s) is in addition to a Lender's credit underwriting telephone interview.

The Lender must document any disagreements between the Borrower and the Dealer brought to their attention that may assist in proper supervision and monitoring of the Dealer.

(2) Required Documentation

The Lender must document the pre-Disbursement interview.

ii. HUD Pre-insurance Loan Reviews

The Lender is not required to submit the loan case file to HUD prior to insurance.

For Property Improvement Loans, HUD reviews Loans only as part of a Loan's Post-Endorsement Technical Review (PETR) or a claim process.

iii. Lender's Pre-insurance Loan Review

The Lender must complete a pre-insurance review of the case binder to ensure all required loan documents are retained in the case binder. The Lender must exercise due diligence in performing its pre-insurance responsibilities.

The Lender must evaluate all information and documentation regarding the Borrower(s) and the proposed Loan in order to confirm that the Loan is eligible for the Title I program and meets its underwriting requirements. Once the Lender determines that the Loan complies with Title I program requirements, it may proceed with the insurance application process.

(A) Reporting Loan for Insurance

Lenders must apply for Title I loan insurance using FHAC within 31 Days from the later of the following dates:

- loan Note;
- Disbursement of proceeds, or final Disbursement for stage Disbursements; or
- purchase from a Dealer or another Lender.

To initiate the insurance process, the Lender must complete the Title I Insurance Application function in FHAC.

FHAC is used for the following steps in the insurance process:

- case number assignment;
- completing the insurance application;
- reporting transfers prior to insuring;
- reporting case updates; and
- checking the case status.

Instructions for specific requirements for data format and delivery to FHAC are found in the FHA Connection Guide.

The Application for Insurance screen requires the Lender to enter additional data about the Lender. The system will either confirm that the data entered was accepted, or will provide information regarding corrections the Lender must make to successfully complete this step. Data fields that must be completed are grouped by the following subject areas:

- general Lender information
- Lender information
- credit/underwriting information
- Borrower information
- address Information

(B) Confirmation of Insurance

After new loan information is entered into FHAC, users view a message indicating that the Title I Property Improvement Loan was successfully completed. The new FHA case number is displayed, along with a summary of the loan information submitted.

(C) Loan Insurance Certificate

A Loan Insurance Certificate (LIC) is *not* produced in FHAC for Title I Property Improvement Loans.

(D) Late Reporting

The Lender may report the Loan for insurance after 30 Days provided that the Loan is not in Default.

Lenders must certify, via FHAC, that all Loans reported for insurance after 30 Days from the Disbursement are not currently in Default. A certification window automatically appears when a Loan is reported past the deadline and must be checked in order to continue the insurance submission process.

At the time of the certification the Lender is confirming that:

- no Loan Payment was currently past due more than 30 Days; and
- the Lender or its agents did not provide the funds to bring and/or keep the Loan current or to bring about the appearance of an acceptable payment history.

(E) Upfront Insurance Premium Not Required

The Title I Property Improvement Loan program does *not* require a UFIP.

(F) Annual Premium Charges

HUD requires that payment be made within 25 Days from the date of each billing statement. The billing statement will specify the payment due date.

Lenders must follow procedures for Annual Insurance Premium and Billing and Remittance.

iv. Inspection Requirements for Loans Pending Closing or Insurance in Presidentially-Declared Major Disaster Areas

All Properties with pending Loan closing or insurance in Presidentially-Declared Major Disaster Areas (PDMDA) must have a damage inspection report that identifies and quantifies any dwelling damage. The report must be dated after the Incident Period (as defined by FEMA). FHA does not require a specific form for a damage inspection report.

Streamline Refinances are allowed to proceed to closing and/or insurance without any additional requirements. Lenders must ensure that any damage identified on the report is repaired and that the Property is restored to pre-disaster condition prior to submitting for insurance endorsement.

FHA does not require that utilities are on at the time of this inspection if they have not yet been restored for an area.

v. Property Improvement Period

The property improvement period starts after the Loan closes. For Direct Loans the improvement period begins when the loan proceeds are disbursed. For Dealer Loans, the improvement period begins before the loan proceeds are disbursed.

Property improvements must be completed within six months of loan closing.

vi. Completion Certificate

Form HUD-56002 is required for all Title I Property Improvement Loans, with exceptions as described below.

(A) Standard

The Lender must obtain form HUD-56002 for all Property Improvement Loans.

The *Completion Certificate* must be signed only after the improvement work is completed.

For Direct Loans, only the Borrower is required to sign. The Dealer/contractor may sign the *Completion Certificate*, but this is not required.

For Dealer Loans, the Borrower and Dealer must sign prior to Disbursement of loan funds.

(B) Lender Responsibility

The Lender must provide the Borrower(s) with a *Completion Certificate* and instructions regarding when and how it should be returned to the Lender. The Lender must track the status of the *Completion Certificates* and follow up with the Borrowers as necessary to ensure that it has a properly completed *Completion Certificate*.

The Borrower must submit the *Completion Certificate* to the Lender not later than 6 months after disbursement of the loan proceeds, with one six-month extension if necessary.

(1) Extension of Improvement Period

The Lender may grant an extension of this deadline for up to an additional six months.

The Lender must document any time extensions that it grants in the case binder. If the Borrower does not submit the *Completion Certificate* within these time limits, the Lender should conduct an onsite inspection.

If the Borrower will not cooperate in permitting an onsite inspection or if the inspection determines that the improvements were not completed, the Lender must send a report of noncompliance to HUD.

(2) Exception for Government Agencies and Nonprofits

The Borrower is not required to submit a *Completion Certificate* for a Direct Property Improvement Loan made by or on behalf of a:

- state or local government agency; or
- nonprofit organization if the loan proceeds are held in an escrow account pending completion of the improvements, and if the loan proceeds are disbursed from the escrow account in stages, with the written approval of the Borrower and based on the percentage of work completed.

(C) Borrower's Certification of Completion of Work

The Borrower must sign a form HUD-56002 to certify that:

1. *The loan proceeds have been spent on property improvements that are eligible under the Title I regulations and in accordance with the contract or cost estimate furnished to the lender with my (our) credit application.*

2. *The property improvements have been completed in general accordance with the contract or cost estimate to my (our) satisfaction.*

3. *I/We have not obtained and will not receive any cash payment, rebate, cash bonus, sales commission, or anything of value in excess of $25 from the dealer or contractor as an inducement to enter into the loan transaction.*

4. *I/We understand that the selection of the dealer or contractor and the acceptance of the materials used and the work performed is my (our) responsibility; and HUD does not guarantee the quality or workmanship of the property improvements.*

(D) Dealer's Certification of Completion of Work

By signing, the Dealer/contractor certifies that:

1. *The property improvements are eligible under the Title I regulations and in accordance with the contract or cost estimate furnished to the borrowers.*

2. *The property improvements have been completed in general accordance with the contract or cost estimate and to the satisfaction of the borrowers.*

3. *The borrowers have not been given or promised any cash payment, rebate, cash bonus, sales commission, or anything of value in excess of $25 as an inducement to enter into this loan transaction (except for any discount points paid by the undersigned to the lender).*

4. *Any discount points paid by the undersigned dealer are from the dealer's own resources and will not be reimbursed by the borrowers or any other party.*

5. *The borrowers signed this certificate after completion of the property improvements, and all signatures on this certificate are genuine.*

(E) Failure to Sign Completion Certificate or Improvements Not Completed

The Borrower must submit the signed form HUD-56002 to the Lender promptly upon the completion of the improvements.

If the Borrower does not submit the *Completion Certificate* upon completion of the improvements or within minimum time limits for completing the improvements, the Lender must conduct an onsite property inspection.

If the Borrower will not cooperate in permitting an onsite inspection or if the inspection determines that the improvements were not completed, the Lender must make a Report of Non-compliant Activities to report Title I Loan Findings to FHA.

The report must detail the problem, and must contain the following information to assist in any investigation: borrower name, borrower address, borrower telephone number, loan amount, loan date, inspection date, lender loan number, loan officer name, dealer name, dealer address, dealer telephone number, and dealer Taxpayer Identification Number (TIN).

The Lender must send the report to:

Housing Office of Lender Activities and Program Compliance
Attn: Director, Quality Assurance Division
Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

Insurance on the Loan will stay in effect unless the non-compliant activity was caused or sanctioned by an employee of the Lender, and provided that the promissory Note

or any required lien on the Property was not invalidated or made legally unenforceable by the noncompliance.

vii. Post-Disbursement Onsite Property Inspection Requirement

The purpose of the inspection is to verify the eligibility of the improvements and whether the work has been completed.

The Lender or its agent must conduct an inspection of improvements for:

- Title I Loans where the principal obligation is $7,500 or more; and
- any unsecured Direct Loan if the Borrower fails to submit a form HUD-56002.

The Lender's fee for inspection of the Property must be an amount that is reasonable and customary for the area, not to exceed the maximum financeable limit for inspections.

(A) Inspector Qualifications

The inspection may be conducted by an employee of the Lender or by the Lender's agent. The Lender may also accept an inspection conducted by local authority.

Through education or work experience, the inspector must be qualified to evaluate contracts or work estimates and to perform property inspections.

There must be an "arm's length" relationship between any inspector and the contractor.

(B) Deadline for Property Inspection

For a Dealer Loan, the inspection must be completed within 60 Days after the date of Disbursement.

For a Direct Loan, the inspection must be completed within 60 Days after the Lender receives the form HUD-56002, or as soon as the Lender determines that the Borrower is unwilling to cooperate in submitting a form HUD-56002.

(C) Documenting the Inspection

The Lender must document the inspection. This documentation must include the following information:

- date of the inspection;
- name of the inspector;
- name of the Borrower;
- property address;
- date of the Note;
- loan amount;
- name of the Dealer/contractor (if a Dealer Loan);
- a description of the improvements;

- photographs of the improvements, if submitted by the inspector; and
- the inspector's opinion as to whether cost of improvements are commensurate with improvements inspected.

The inspection report must either identify improvements that were completed and/or incomplete.

Incomplete work may be described in terms of specific items in the work plan, percentage of completion, or an estimate regarding the dollar value of the completed improvements.

The Lender is responsible for reviewing the inspection report and ensuring that there is no evidence of inconsistency between the photographs and the narratives.

(D) Incomplete Improvements

If the inspection determines that the contracted improvements were not completed, the Lender should seek an explanation from the Borrower (and Dealer if applicable).

If the Lender is able to confirm that the proceeds of the Loan were used exclusively for eligible improvements and eligible fees or charges, the Lender should document in the case binder regarding this determination. This Lender's documentation should identify items from the work proposal that were not completed.

viii. Reporting Misuse of Proceeds

If the Lender determines that any portion of the loan proceeds was used for ineligible improvements or for ineligible purposes, they must make a Report of Non-compliant Activities to report Title I Loan Findings to FHA.

If Findings of noncompliance relate to an approved Dealer used in the Dealer Loan process, the Lender must determine whether it should terminate the Dealer from participation in the Title I program.

The report must detail the problem, and must contain the following information to assist in any investigation: borrower name, borrower address, borrower telephone number, loan amount, loan date, inspection date, lender loan number, loan officer name, dealer name, dealer address, dealer telephone number, and dealer TIN.

The Lender must send the report to:

U.S. Department of Housing and Urban Development
Quality Assurance Division
451 Seventh St., SW
Washington, DC 20410

Insurance on the Loan will stay in effect unless the non-compliant activity was caused or sanctioned by an employee of the Lender, and provided that the promissory Note or any required lien on the Property was not invalidated or made legally unenforceable by the noncompliance.

g. Programs and Products – Refinance (05/09/2022)

i. Overview

(A) Definition

A Refinance transaction establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property. The existing debt to be paid off must be a Title I Property Improvement Loan. The refinance Loan may also advance funds for additional improvements.

(B) Types of Refinances

(1) Cash-Out or Cash Back (Not Permitted)

A Cash-Out Refinance refers to a refinance of any loan that advances additional credit or provides cash back to the Borrower, or for which the loan proceeds are used for ineligible purposes.

A Cash-Out Refinance transaction is not permitted for the Title I Property Improvement Loan program.

(2) No Cash-Out Refinance

Title I No Cash-Out Refinances are categorized into three possible refinance types.

(a) Simple Title I Property Improvement Refinance

A Simple Title I Refinance refers to a no cash-out refinance of an existing Title I insured Property Improvement Loan in which all proceeds are used to pay off the existing Title I Loan on the subject Property, and Financeable Fees and Charges.

(b) Streamline Title I Property Improvement Refinance (Non-credit Qualifying)

A Streamline Title I Property Improvement Refinance refers to the refinance of an existing Title I Property Improvement Loan for which the Lender is not required to perform credit or capacity analysis.

(c) Title I Property Improvement Refinance with Advance of Funds

A Title I Property Improvement Refinance with Advance of Funds refers to the refinance of an existing Title I Property Improvement Loan, and advances of funds for additional improvements and financeable fees.

ii. FHA-Insured to FHA-Insured Refinances

FHA-Insured to FHA-Insured refinances may be used with any refinance type.

iii. Conditions for Refinance

An existing Title I insured Property Improvement Loan may be refinanced only under the following conditions.

(A) Lender of Record Only

An existing Title I Loan may not be refinanced by a Lender different from the originating Lender of record, unless the Loan has been sold, assigned, or transferred to the new Lender and HUD has transferred insurance coverage for the Loan.

(B) Loan in Default

A Loan that is in Default must not be refinanced for an amount greater than the lesser of:

- the original principal balance of the Loan; or
- the current principal balance plus reasonable closing costs and Upfront Mortgage Insurance Premium (UFMIP).

(C) Title I Note and Security

Refinancing is subject to the Title I Note and Security Instrument requirements. Refinancing requires the Borrower(s) to execute a new Note as well as cancel the old Note. The Lender must obtain and record a new security instrument and should release the original lien unless state law permits a renewal and extension of the original lien.

(D) Co-maker or Co-signer on Loan

If there are any co-makers or Co-signers on the original Note, a Lender must require that the same co-makers or Co-signers be obligated on the refinanced Note, except in cases of divorce or death, unless the Lender obtains HUD's approval to release the co-maker or Co-signer from liability on the Note.

(E) Previous Assumption

A Loan that was assumed may be refinanced as long as the original Borrower and any intervening assumptors were released from liability either at the time the Loan was assumed or later through permission from HUD.

(F) Additional Improvements

A Loan may be refinanced with funds for additional improvements if the additional improvements are eligible and the Loan is not in Default.

iv. Nationwide Loan Limits

The total principal obligation for a refinance must not exceed the Title I Property Improvement Nationwide Loan Limits for the property type/loan purpose.

v. Maximum Loan Term

The term of a refinance must not exceed the maximum Loan Term for the type of Loan. In addition, the total time period from the Disbursement Date of the original Loan to the final maturity of the refinance must not exceed the maximum term for the type of Loan plus 9 years and 11 months.

vi. Other Documents

A new Notice to Borrower of HUD's Role in Title I Loans must be issued and signed by each Borrower.

Copies of all documents pertaining to the original Loan must be retained in the case binder of the refinanced Loan.

Payoff statement(s) for the existing Property Improvement Loan must be retained in order to be satisfied with the proceeds of the new refinance Loan.

vii. Reporting the Loan in FHA Connection

Refinanced Loans must be reported in FHAC within 31 Days from the date of loan Disbursement.

When reporting a refinance, Lenders will supply information on the original Loan so that HUD may terminate the Title I insurance on the original Loan and make appropriate adjustments to the Lender's insurance coverage reserve account. HUD will also prorate any unpaid installments on the insurance charge between the old Loan and the new Loan. Lenders are cautioned not to erroneously report a refinanced Loan as a new Loan.

viii. Specific Eligibility Criteria

(A) Simple Title I Property Improvement Refinance

(1) Maximum Loan Amount

The maximum loan amount of a Simple Title I Property Improvement Refinance is limited to the cost of prepaying the existing Loan, plus financeable fees and charges, not to exceed the Title I Property Improvement Nationwide Loan Limits.

Cash back to the Borrower is not permitted.

(2) Credit Qualification

Lenders must underwrite the Simple Title I Refinance Loan to ensure compliance with Title I credit and capacity requirements.

(B) Streamline Title I Property Improvement Refinance

(1) Maximum Loan Amount

The maximum loan amount of a Streamline Refinance is limited to the cost of prepaying the existing Loan, plus eligible fees and charges, not to exceed the original Title I loan amount.

(2) Credit Qualification

Lenders are not required to conduct credit or capacity analysis.

(C) Title I Property Improvement Refinance with Advance of Funds

(1) Maximum Loan Amount

The maximum loan amount is the sum of the cost of prepaying the existing Title I Property Improvement Loan, plus the cost of additional improvements, and financeable fees and charges, not to exceed the Title I Property Improvement Nationwide Loan Limits.

(2) Use of New Loan Proceeds

(a) Eligible Use

New funds must be used to finance:

- eligible improvements for a new work project; or
- additional work on an existing uncompleted project that was not financed by the prior Title I Loan.

Funds that finance additional work on an existing project may be for an upgrade, or for new work that was unexpected and necessary to further an existing project toward completion.

(b) Ineligible Use

New funds must not be advanced for completion of an existing project when the original loan funds were used for purposes different from the work scope on which the prior Title I loan amount was based.

New funds must not be advanced when the Lender has discovered misuse of loan proceeds, or other irregularities.

(3) Credit Qualification

Lenders must underwrite the Title I Refinance with an advance of funds to ensure compliance with Title I credit and capacity requirements.

ix. Required Documentation

(A) Disclosure To Borrower: "Notice to Borrower of HUD's Role"

For each new Title I insured Loan, a Notice to Borrower of HUD's Role in Title I Loans must be issued and acknowledged by all Borrowers.

(B) Existing Loan Payoff Amount

A loan payoff statement is required on all Title I Loans secured by the Property that will be paid off with the new Title I Loan.

The Lender must obtain the payoff statement for all existing Loans.

(C) Note and Security Requirements

Refinancing requires the Borrower(s) to execute a new Note. The new Note must comply with the same requirements as an original Title I Property Improvement Loan.

When the loan amount exceeds $7,500, the Lender must obtain and record a new security instrument and ensure a release of any existing Title I lien unless state law permits a renewal and extension of the original lien. Refinance Loans must comply with Title I Property Improvement Lien Priority requirements.

(D) Original Title I Case Binder

For a Title I Refinance, copies of all documents pertaining to the original Title I Loan must be retained in the refinance case binder.

x. Insurance Processing

Refinanced Loans must be reported to HUD for insurance within 30 Days after loan Disbursement as outlined in Closing and Disbursement. When reporting a refinance of a prior Title I Loan, Lenders must supply information on the original Loan so that HUD may terminate the Title I insurance on the original Loan. HUD will also prorate any unpaid installments on the insurance charge between the old Loan and the new Loan. Lenders are cautioned not to erroneously submit a refinanced Loan as a new Loan.

3. Direct and Dealer Loan Process for Manufactured Home Loan Program

Loans insured under FHA's Manufactured Home Loan program are categorized by either of two origination processes: Direct Loans or Dealer Loans.

A Dealer for a Manufactured Home Loan refers to a person or business that is engaged in the business of manufactured home retail sales. Dealers of manufactured home sales have a financial interest (either direct or indirect) in the transaction.

a. Direct Loans (09/26/2022)

i. Definition

A Direct Loan process refers to where the Borrower applies directly to the Lender or its sponsored TPO for the Loan without assistance from a Dealer, contractor, or third party that has a financial interest in the loan transaction.

ii. Standard

The credit application, signed by the Borrower, may be filled out by the Borrower or by a person acting at the direction of the Borrower who does not have a financial interest in the loan transaction.

For a Direct Loan purchase transaction, loan proceeds are disbursed to the Borrower and seller jointly. However, the Borrower may provide the Lender with an executed assignment of Borrower's interest in the loan proceeds to the seller on or before the date of disbursement to properly complete payment.

For a Direct Loan refinance transaction, proceeds are disbursed to the Note holder of the Loan being paid off.

b. Dealer Loan (05/09/2022)

i. Definition

A Dealer Loan refers to a Loan where a Dealer assists the Borrower in preparing the credit application or otherwise assists the Borrower in obtaining the Loan from the Lender. This may include completing the loan application for the Borrower, and

collecting any other documentation or information as required by the Lender that is necessary to support the lending decision.

When a Dealer does not assist the Borrower in obtaining the Loan from the Lender, then the transaction is not considered a Dealer Loan.

ii. Standard

The Dealer may assist the Borrower in obtaining the Loan from the Lender. This may include completing the loan application for the Borrower, and collecting any other documentation or information as required by the Lender that is necessary to support the lending decision.

To facilitate the sale of Manufactured Homes, the Dealer may enter into a Business Relationship with an FHA Title I approved Lender that will provide financing to the home purchaser.

The Dealer and Title I Lender may agree to require partial or full recourse in a provision in the loan documents against the Dealer to reduce or eliminate the Lender's loss in the event of foreclosure or repossession. Recourse provisions are subject to the requirements described in Recourse from Dealer.

The loan documents may provide for partial or full recourse against the Dealer, and must comply with requirements described in Recourse from Dealer.

iii. Dealer Approval and Monitoring

The Lender is responsible for approving Dealers prior to the Dealer's participation in the Dealer Loan process. The Lender must complete an investigation of the Dealer and document the findings for approval before the Dealer may begin originating Title I Loans through the Lender.

(A) General Criteria

Each Dealer must demonstrate previous business experience in manufactured home retail sales. The Lender must evaluate the Dealer on the basis of experience and approve only those Dealers that the Lender considers to be reliable, financially responsible, and qualified to satisfactorily perform their contractual obligations. At a minimum, each Dealer must comply with the following requirements for Dealer approval.

(1) Dealer Eligibility for Participation in HUD Programs

The Lender must verify that the Dealer and the Principal Owners of the dealership are not excluded from participation in federal government programs and document the results of their review.

The Lender may not contract with entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. The Lender must ensure that no TPO or contractor engages such an entity or person to perform any function relating to the origination of an FHA-insured Loan. The Lender must check the System for Award Management (SAM) and the Credit Alert Verification Reporting System (CAIVRS) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

The Dealer, if the Dealer is acting as a Lender, must comply with all laws, rules, and requirements applicable to the loan transaction, including full compliance with the Consumer Financial Protection Bureau (CFPB).

(2) Net Worth Requirement

A Dealer must have and maintain a net worth of not less than $63,000 in assets acceptable to HUD.

The following asset types and sources are not eligible for inclusion toward the minimum net worth:

- any assets of the Dealer that are pledged to secure obligations of another person or entity;
- any asset due from either officers or stockholders of the Dealer or related entities, in which the Dealer's officers and stockholders have a personal interest (unrelated to their position as an officer or stockholder). "Personal interest" refers to a relationship between the Dealer and a person or entity in which that specified person (e.g., spouse, parent, grandparent, child, brother, sister, aunt, uncle, or in-law) has a financial interest in or is employed in a management position by the Dealer;
- any investment in related entities in which the Dealer's officers or stockholders have a personal interest unrelated to their position as an officer or stockholder for the Dealer;
- that portion of an investment in joint ventures, subsidiaries, Affiliates and/or other related entities which is carried at a value greater than equity, as adjusted. "Equity as adjusted" means the book value on the books of the related entity reduced by the amount of unacceptable assets carried by the related entity;
- all intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, etc., except unamortized servicing costs carried at a value established by an Arm's Length Transaction and presented in accordance with Generally Accepted Accounting Principles (GAAP);
- that portion of an asset not readily marketable, and for which appraised values are very subjective, carried at a value in excess of a substantially discounted appraised value; and

- any asset which is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes.

(3) Resale Agreements

As a condition of approval, a Lender may require a Dealer to execute a written resale agreement. If a Loan originated by the Dealer results in the repossession of the Manufactured Home, the agreement would require the Dealer to assist the Lender in reselling the Manufactured Home, if requested by the Lender.

(B) Approval Procedure for the Dealer

Lenders must follow the procedures listed below to approve a Dealer to participate in the Title I Manufactured Home Loan program.

(1) Application Form

A prospective Dealer must complete form HUD-55013, *Dealer/Contractor Application: Title I Property Improvement and Manufactured Home Loans*. The Lender must retain form HUD-55013 and all supporting documentation in its dealer file for each Dealer.

(2) Financial Statement

The Lender must obtain and review the Dealer's most recent annual financial statement(s) to confirm that the Dealer meets HUD's net worth requirement. The financial statement must have been prepared by a Certified Public Accountant (CPA) or a licensed public accountant. If the annual financial statement provided at application is more than six months old, the Lender must also obtain and review the Dealer's current Profit and Loss (P&L) statement and balance sheet to verify that the Dealer's net worth is sufficient.

(3) Dealer Credit Report

The Lender must obtain and evaluate a commercial credit report on the dealership. The Lender must also obtain and evaluate an individual credit report on the Principal Owner(s) of the dealership to ensure that the owner(s) does not exhibit a disregard for credit.

(4) Documentation of Approval

Upon completion of the Lender's thorough review and investigation of a Dealer, an authorized official of the Lender must sign the bottom of form HUD-55013 to document the Lender's decision to approve the Dealer. The Lender must retain the approved application and all supporting documentation obtained during the application review.

(5) Annual Renewal

A Dealer is approved for a period of one year. To be re-approved, a Dealer must provide the Lender with a new form HUD-55013 and its most recent financial statement.

In addition to the steps outlined above for the initial approval, the Lender must also evaluate its experience with the Dealer during the prior year. This evaluation must address performance factors such as:

- the Dealer's approval and rejection rates;
- the collection history for Loans purchased from the Dealer; and
- the Dealer's complaint resolution practices.

(C) Monitoring the Dealer

In addition to the initial and annual dealer approval reviews, a Lender must monitor each approved Dealer's activities with respect to Loans insured by HUD on an ongoing basis. The Lender must take prompt action to resolve any dealer deficiencies discovered. A Lender's monitoring of Dealers must include the following.

(1) Quality of Borrower Applicants

The Lender must monitor the quality of applicants submitted by the Dealer. If a Dealer's rejection rate is too high, the Lender should meet with the Dealer to review the Dealer's marketing and borrower qualification practices.

(2) Loan Documentation Quality

The Lender must monitor the quality and completeness of the loan documentation submitted by the Dealer.

(3) Dealer Advertising

The Lender must monitor dealer advertising and other marketing material to ensure against misleading or false claims. Of particular concern is advertising that uses "Federal Housing Administration," "Department of Housing and Urban Development," "FHA," or "HUD" to convey the impression that the Dealer has a special relationship with the federal government. Other prohibited marketing practices include material that states or implies that it is an official government notice, Title I is a grant program, Title I provides Special Benefits for a particular area or group, government funding for the program is limited in amount or for a limited time period, the Borrowers are pre-approved, poor credit is acceptable, HUD approved the Dealer, or the loan funds can be used for debt consolidation. Copies of dealer advertisements and other marketing materials issued by the Dealer must be maintained in the Dealer's file with the other required documents.

Special Benefits refer to benefits other than volume incentives for Dealers which a home manufacturer funds from general corporate revenues by charging them against corporate overhead and profit without changing the wholesale (base) price of a Manufactured Home (or series of homes), as reflected in the manufacturer's published wholesale (base) price list, and which are limited to payments by the manufacturer directly to:

- a financial institution to buy down or reduce the interest rate, Discount Points, or other fees or charges related to a lending agreement for a Dealer's manufactured home inventory or floor plan financing needs; or
- one or more advertising media for all or part of the costs of advertising the manufacturer's homes, one or more Dealer's services, and related manufactured home materials and products in such media.

(4) Monitor Complaints

The Lender must monitor complaints received on Loans originated by the Dealer. Documentation for all complaints and their resolution must be maintained in the Dealer's file. Particular attention should be focused on the quality of service offered, whether warranties are honored in a timely manner, and the general manner in which the Dealer resolves complaints and conducts their business.

(5) Prohibition of Kickbacks and other Irregularities

All credible allegations of irregularities (kickbacks, false statements, etc.) must be promptly reported to either HUD's QAD or to HUD's Office of the Inspector General (OIG). All referrals to the OIG should be made to the OIG Hotline's call center at 1-800-347-3735 or via the OIG Hotline's website at www.hudoig.gov/hotline.

(6) Material Changes of Dealer

A Lender is responsible for monitoring each Dealer, including any material change in their trade name, places of business, type of ownership, type of business, or principal individuals who control or manage the business.

Upon discovery of any material change, the Lender must determine that the eligibility of the Dealer has not changed.

(7) Maintain Dealer Files

The Lender is to maintain a separate file for each approved Dealer. The file is to include the initial application and documentation used for approval and any information regarding the Lender's experience with Title I Loans involving the Dealer. Each file must consist of information regarding borrower Default rates, records of inspections of homes delivered and installed by the Dealer, copies of letters concerning borrower complaints and their resolution, material changes,

copies of dealer advertisements and other marketing materials, and records of the Lender's visits to the Dealer's premises.

(8) Termination of the Dealer

A Dealer's approval will be terminated if a Dealer does not satisfactorily perform its contractual obligations to Borrowers, does not comply with Title I program requirements, or is unresponsive to inquiries pertaining to lender supervision and monitoring requirements. The Lender is required to notify HUD immediately with written documentation of the reason(s) for termination. A Dealer whose approval is terminated as a result of these circumstances may not be re-approved by a Lender without prior written approval from HUD.

Notices of termination for cause and requests for permission to re-approve a terminated Dealer must be in writing and sent to:

U.S. Department of Housing and Urban Development
Quality Assurance Division
451 Seventh St., SW
Washington, DC 20410

A Lender may, at its discretion, terminate the approval of a Dealer for other reasons at any time.

4. Manufactured Home Loan Program

The Title I Manufactured Home Loan Program, Origination/Processing through Post-closing/Endorsement sections in this *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) is applicable to all Manufactured Home Loans insured under Title I of the National Housing Act. The Lender must fully comply with all of the following standards and procedures for obtaining Federal Housing Administration (FHA) insurance on a Loan. If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative program or product specific standards and procedures are explicitly stated. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

a. Origination/Processing (05/25/2025)

i. Application Packages and Disclosures

(A) Borrower Eligibility

(1) Definition

Borrower refers to one who applies for and receives a Loan insured under this part. The term may also include any co-maker or Co-signer or any assumptor who is obligated for the repayment of a loan obligation insured under this part.

(2) Contents of the Loan Application Package

The Lender must maintain all information and documentation that is relevant to its approval decision in the case binder. All information and documentation that is required in this Handbook 4000.1, and any incidental information or documentation related to these requirements, is relevant to the Lender's approval decision.

If, after obtaining all documentation required below, the Lender has reason to believe it needs additional support for the approval decision, the Lender must obtain additional explanation and documentation, consistent with information in the case binder, to clarify or supplement the information and documentation submitted by the Borrower.

(a) Maximum Age of Loan Application Documents

Documents used in the origination and underwriting of a Loan may not be more than 120 Days old at the Disbursement Date. Only documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or Tax Returns, may be more than 120 Days old at the Disbursement Date.

For counting purposes, Day one is the Day after the effective or issue date of the document, whichever is later.

Appraisal Validity

The 120-Day age limit applies to a property appraisal conducted in connection with loan origination. See Appraisals. The 120-Day validity period may be extended for 30 Days at the option of the Lender if needed during loan origination, pre-closing review, or claim processes.

(b) Handling of Documents

Lenders, including sponsored TPOs, must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through, the equipment of unknown or Interested Parties, including the Borrower, the Dealer or its agent, or sponsored TPOs.

The documents referred to in this section are Lender-generated direct verification documents, which are used to verify and supplement documentation submitted by the Borrower at application. These verifications are to be sent directly from the Lender to the requested responder to obtain independent, written verification of employment, income, rent, or financial accounts.

(i) Information Sent to the Lender Electronically

The Lender must authenticate all documents received electronically by examining the source identifiers (e.g., fax banner header or the sender's email address) and contacting the source by telephone to verify the document's validity. The Lender must document the name and telephone number of the individual with whom the Lender verified the validity of the document.

(ii) Information Obtained via Internet

The Lender must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The Lender must verify that the website exists.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

(iii) Confidentiality Policy for Credit Information

Lenders must not divulge sources of credit information, except as required by a contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with:

- Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), Public Law 91-508;
- the Privacy Act, Public Law 93-579;
- the Financial Privacy Act, Public Law 95-630; and

- the Equal Credit Opportunity Act (ECOA), Public Law 94-239 and 12 CFR Part 202.

(c) Signature Requirements for All Application Forms

All Borrowers must sign and date Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*), and form HUD-92900-TI, *HUD Addendum to the Uniform Residential Loan Application for Title I Loans*.

(i) The application may not be signed by any party who will not be on the Note.

(ii) A Power of Attorney (POA) may not be used unless the Lender verifies and documents that all of the following requirements have been satisfied:

- For military personnel, a POA may only be used when all of the following apply:
  - when the servicemember is on overseas duty or on an unaccompanied tour;
  - when the Lender is unable to obtain the absent Borrower's signature on the application by mail or fax; and
  - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower.
- For incapacitated Borrowers, a POA may only be used:
  - where a Borrower is incapacitated and unable to sign the loan application; and
  - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower.

(d) Prohibition on Documents Signed in Blank

Lenders are *not* permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.

(e) Policy on Use of Electronic Signatures

(i) Definition

An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

(ii) Use of Electronic Signatures

An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for loan insurance, unless otherwise prohibited by law.

Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.

*(iii)*Electronic Signature Performance Standards

The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, Lenders choosing to use electronic signatures must fully comply with the Performance Standards.

The Electronic Signatures in Global and National Commerce Act (ESIGN Act) Compliance and Technology

A Lender's electronic signature technology must comply with all requirements of the ESIGN Act, including those relating to disclosures, consent, signature, presentation, delivery, retention and any state law applicable to the transaction.

Third Party Documents

Third Party Documents refer to those documents that are originated and signed outside of the control of the Lender, such as the sales contract.

FHA will accept electronic signatures on Third Party Documents included in the case binder for loan insurance endorsement in accordance with the ESIGN Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

Authorized Documents

Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the Lender complies with the Performance Standards.

- **Loan Insurance Endorsement Documents:** Electronic signatures will be accepted on all documents requiring signatures included in the case binder for loan insurance.

- **Servicing and Loss Mitigation Documentation:** Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured Loans.

- **FHA Insurance Claim Documentation:** Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-637, *Title I Claim for Loss*.

Associating an Electronic Signature with the Authorized Document

The Lender must ensure that the process for electronically signing authorized documents provide for the document to be presented to the signatory before an electronic signature is obtained. The Lender must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.

Intent to Sign

The Lender must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the ESIGN Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes:

- identifying the purpose for the Borrower signing the electronic record;
- being reasonably certain that the Borrower knows which electronic record is being signed; and
- providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.

Intent to use an electronic signature may be established by, but is not limited to:

- an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature;
- an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or
- a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.

Single Use of Signature

Lenders must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.

This provision does not apply to documents signed by Lender employees or Lender contractors provided the Lender obtains the consent of the individual for the use of their electronic signature. The Lender must document the Borrower's consent.

Authentication - Definition

Authentication refers to the process used to confirm a signer's identity as a party in a transaction.

Authentication - Standard

Before a Lender reports the Loan for insurance, the Lender must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to:

- national commercial credit bureaus;
- commercially available data sources or services;
- state motor vehicle agencies; or
- government databases.

The Lender must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.

Attribution - Definition

Attribution is the process of associating the identity of a signer with their signature.

Attribution - Standard

The Lender must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.

The Lender must use one of the following methods, or combinations of methods, to establish attribution:

- selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process;
- delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method;
- knowledge base authentication using "out of band/wallet" information;

- measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement, together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or
- public key cryptography.

Credential Loss Management

Lenders must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable:

- maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password;
- ensuring that identification code and password issuances are periodically checked, recalled, or revised;
- following loss management procedures to electronically deauthorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls;
- using transaction safeguards to prevent unauthorized use of passwords or identification codes; or
- detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.

(f) Required Documentation and Integrity of Records

Lenders must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed. Lenders must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.

If changes to the document are made, the electronic process must be designed to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them.

The Lender's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the Lender or holder as the controlling reference copy.

(3) Credit Application and Initial Supporting Documentation

The Lender must obtain a completed *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65), form HUD-92900-TI, and a Notice to Borrower of HUD's Role in Title I Loans from the Borrower prior to completion of the underwriting process.

(a) Interview with Borrower

The Lender must conduct a telephone or face-to-face interview with the Borrower and any co-maker or Co-signer to resolve any material discrepancies, and ensure that the information, including listed debts and obligations, is accurate and complete.

(b) Dealer Certification

Dealers who participate in the Borrower's purchase of a Manufactured Home must sign the certification on the last page of form HUD-92900-TI.

(c) Credit Application Name Requirements

(i) Standard

All credit applications *must* be executed in the legal names of one or more individuals on the application.

Credit applications from a corporation, partnership, sole proprietorship, nonprofit or trust (including living or non-revocable trusts) are not permitted under Title I.

(ii) Required Documentation

The Lender must include a statement that it has verified the Borrower's identity using a valid government-issued photo identification at or prior to closing the Loan, or the Lender may choose to include a copy of such photo identification as documentation.

(4) Borrower's Authorization

The Lender must obtain the Borrower's authorization to verify the information needed to process the loan application.

(5) Borrower's Authorization for Use of Information Protected under the Privacy Act

(a) Standard

The Lender must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss

mitigation, and disposition of the Loan or, if applicable, the Property securing the Loan, and relating to any insurance claim and ultimate resolution of such claims by the Lender and FHA.

(b) Required Documentation

The Lender must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.

(6) Sales Contract and Required Documentation

(a) Standard

The Lender must not originate an insured Loan for the purchase of a Property if any provision of the sales contract violates FHA requirements. An addendum or modification may be used to remove or correct nonconforming provisions.

The Lender must ensure (1) all purchasers listed on the sales contract are Borrowers, and (2) all Borrowers sign the sales contract.

(b) Required Documentation

The Lender must obtain a complete copy of the sales contract including any modifications or revisions agreed upon by buyer and seller.

(c) Property Appraisal

The Borrower must receive a copy of the property appraisal when an appraisal is required for FHA insurance endorsement.

When an appraisal report is required, the Lender must give the Borrower a copy of the property appraisal report at least three Days prior to loan closing.

A property appraisal is not required in connection with:

- purchase of a New Manufactured Home; or
- refinance of an FHA-insured Loan that secures a Manufactured Home.

(B) Disclosures and Legal Compliance

The Lender must provide or ensure the Borrower is provided with the following disclosure.

(1) Notice to Borrower of HUD's Role in Title I Loans

(a) Standard

The Lender must provide a written notice to clearly inform each Borrower that the Loan will be insured against Default by HUD and about the actions that HUD will take to collect the Loan if the Borrower defaults. This notice also serves to document the Borrower's agreement to pay any penalties and administrative costs that may be assessed by HUD.

(b) Required Documentation – Borrower Acknowledgment

The Lender must have each Borrower sign a copy of the notice at loan application. The copy signed by the Borrower(s) must be retained in the case binder.

(c) Required Documentation – Wording of the Notice

The Lender must prepare the notice on the Lender's letterhead. The notice must read as follows:

You have applied for a manufactured home loan that is to be insured by the Department of Housing and Urban Development. If you fail to repay this lender as agreed, we may foreclose or repossess the home or other property securing this loan and sell it. It is important for you to understand that the value of the property at the time of repossession/foreclosure may be less than the unpaid balance on your loan, leaving you liable for the difference.

After your property is sold, we may assign the remaining debt to HUD for collection.

Failure to pay this debt to HUD may result in offset of Federal payments due you (including Federal income tax refunds, Social Security benefit payments, and Federal employee wages or retirement) or may result in the administrative garnishment of your wages. In addition, failure to pay may result in the referral of the debt for collection to the Department of Justice, to the Department of Treasury, or to private collection agencies. In addition to principal and interest on the debt, you will be liable for the payment of any penalties or administrative costs that may be imposed by HUD as authorized by Section 3717 to Title 31 of the United States Code.

Your signature below indicates that you have read and understand this notice, and that you consent to pay any penalties, administrative costs, and interest that may be assessed by HUD.

(2) Compliance with All Applicable Laws, Rules, and Requirements

The Lender must comply with all laws, rules, and requirements applicable to the loan transaction, including full compliance with the requirements applicable to the following under the purview of the Consumer Financial Protection Bureau (CFPB):

- Truth in Lending Act (TILA)
- Real Estate Settlement Procedures Act (RESPA)
- the FCRA and the ECOA, as implemented by Regulation B (12 CFR Part 1002)

(3) Nondiscrimination Policy

The Lender must fully comply with all applicable provisions of nondiscrimination and equal opportunity laws, regulations, and contract provisions including, but not limited to:

- Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the FCRA, 15 U.S.C. §§ 1681a–1681x; and
- the ECOA, 15 U.S.C. §§ 1691a–1691f.

The Lender must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because an applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of the Property.

(C) Application Document Processing

The Lender must order the FHA case number and perform any associated tasks performed directly in FHA Connection (FHAC). The Lender may use nonemployees in connection with its origination of FHA-insured Loans only as described below.

The Lender ultimately remains responsible for the quality of the Loan and strict compliance with all applicable FHA requirements, regardless of the Lender's relationship to the person or entity performing any particular service or task.

(1) Sponsored Third-Party Originator

The Title I Lender is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved Lenders/Mortgagees acting in the capacity of a sponsored TPO may have direct access to FHAC.

(2) Dealer

The Lender is responsible for approving and monitoring a Dealer and dictating the specific application and processing tasks that the Dealer performs.

(3) Contract Service Providers

A Lender may use qualified contractors to perform the administrative and clerical loan processing functions, provided the contractors do not have an interest in the transaction. These contractors perform the following functions: typing loan documents, mailing out and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping Loans to Investors.

(4) Excluded Parties

The Lender may not contract with entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. The Mortgagee must ensure that no sponsored TPO or contractor engages such an entity or person to perform any function relating to the origination of an FHA-insured Mortgage.

The Lender must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(5) Underwriter Qualifications

HUD does not approve nor require Direct Endorsement certification for Title I underwriters. Title I Lenders approve the underwriter based on demonstrated capabilities and knowledge in loan underwriting.

The Lender must register each underwriter in FHAC. By registering the underwriter in FHAC, the Lender certifies that the underwriter meets the necessary qualifications to underwrite Title I Manufactured Home Loans. The underwriter must be a full-time employee of the Lender.

(D) Initial Document Processing

The Lender begins processing the Loan by obtaining the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-TI.

(E) Case Number Assignment

A Lender reports all prospective Title I Manufactured Home Loans to HUD via the "Case Number Assignment" screen on the FHAC portal website. The information required on this screen includes general loan information, and information about the Borrower, the home unit and the home site. Once the Lender's submission passes all data entry validations, it is accepted for overnight processing.

This process verifies the submitted data against a series of system validations. Once completed, the system will issue a Title I case number that will be specific to the loan

transaction. The system will advise the Lender if additional information is required or if corrections are needed.

(1) Case Numbers on Sponsored Originations

The Lender will not be able to order case numbers for sponsored originations unless their sponsored TPO has been registered in FHAC.

(2) Canceling a Case Number

The Lender may cancel FHA case numbers in FHAC under the following circumstances:

- an appraisal has not been completed and the Borrower will not close the loan as an FHA-insured Loan;
- the FHA insurance will not be sought; or
- the appraisal has already expired.

ii. Manufactured Home Loan Eligibility and Purpose

(A) Definition

Manufactured Home Loan refers to a Loan for the purchase or refinancing of a Manufactured Home and/or the lot on which to place such home. Unless otherwise indicated, the term includes Manufactured Home Purchase Loans, Manufactured Home Lot Loans, and Combination Loans.

Manufactured Home Purchase Loan refers to a Loan for the purchase or refinancing of a Manufactured Home exclusive of any lot or site, and may also include a garage, patio, carport, or other comparable appurtenance.

A Combination Loan refers to a Loan made for the purchase or refinancing in a single transaction of a Manufactured Home and a manufactured home lot, and may also include a garage, patio, carport, or other comparable appurtenance.

(B) Standard

The loan proceeds may be used for the following loan types and purposes.

(1) Manufactured Home Loan

A Manufactured Home Loan is used to purchase or refinance a Manufactured Home unit.

(2) Manufactured Home Lot Loan

A Manufactured Home Lot Loan is used to purchase a parcel of real estate to be used as the site for the placement of a Manufactured Home unit.

(3) Combination Loan (Manufactured Home and Lot)

A Combination Loan is used to purchase or refinance a Manufactured Home unit and a parcel of real estate to be used as the site for the placement of a Manufactured Home unit.

(C) Refinance

A refinance transaction establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property.

The refinance Loan may also advance additional funds for the purchase of a home or lot, which is also referred to as a Combination Loan.

(D) General Borrower Eligibility Requirements

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section.

A party who has a financial interest in the loan transaction, such as the seller, builder or real estate agent, may not be a co-Borrower or a Co-signer. Exceptions may be granted when the party with the financial interest is a Family Member.

(1) Social Security Number

(a) Standard

Each Borrower must provide evidence of their valid Social Security Number (SSN) to the Lender. Individuals employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD are not required to provide an SSN.

(b) Required Documentation

The Lender must:

- validate and document an SSN for each Borrower, co-Borrower, or Co-signer on the Loan by:
  - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through FHAC;
  - examining the Borrower's original pay stubs; IRS Form W-2s, *Wage and Tax Statement*; valid Tax Returns obtained directly from the Internal Revenue Service (IRS); or other document relied upon to underwrite the Loan; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during loan processing and underwriting using a service provider to verify the SSN with the Social Security Administration (SSA).

(2) Borrower Age Limits

The Borrower must be old enough to enter into a loan Note that can be legally enforced in the state, or other jurisdiction, where the Property is located. There is no maximum age limit for a Borrower.

(3) Occupancy

The Borrower must own and occupy the Manufactured Home as a Principal Residence. Non-Occupant Borrowers are not permitted unless there is proof that they are exempted due to military service with overseas assignments.

(4) Borrower and Co-Borrower Ownership and Obligation Requirements

To be eligible, all Borrowers and co-Borrowers must take title to the Property at settlement, be obligated on the Note or credit instrument, and sign all security instruments.

Not all individuals with an interest in the Property are required to be Borrowers. However, the Loan must be executed by all parties necessary to make the lien valid and enforceable under state law.

(5) Military Personnel Eligibility

(a) Standard

Borrowers who are military personnel, who cannot physically reside in a Property because they are on Active Duty, are still considered Owner-Occupant Borrowers and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject Property as their Principal Residence, or the Borrower intends to occupy the subject Property upon discharge from military service.

(b) Required Documentation

The Lender must obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject Property.

The Lender must obtain the Borrower's intent to occupy the subject Property upon discharge from military service.

(6) Citizenship and Immigration Status

U.S. citizenship is not required for loan eligibility.

(7) Residency Requirements

The Lender must determine the residency status of the Borrower based on information provided on the loan application and other applicable documentation. In no case is a Social Security card sufficient to prove immigration or work status.

(a) Permanent Residents

(i) Standard

A Borrower with lawful permanent resident status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

(ii) Required Documentation

The case binder must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident on the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65).

The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

(b) Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau

(i) Standard

A Borrower with citizenship in the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

(ii) Required Documentation

For Borrowers who are citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau, the case binder must include evidence of such citizenship.

(c) Non-U.S. Citizens without Lawful Residency

Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured Loans.

(8) Borrower Ineligibility due to Delinquent Federal Non-tax Debt

(a) Standard

Lenders are prohibited from processing an application for an FHA-insured Loan for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Mortgages or Loans. Lenders are required to determine if the Borrowers have delinquent federal non-tax debt. Lenders may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

(b) Verification

If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the Lender must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the Lender must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured Loan until the Borrower resolves the debt with the creditor agency.

The Lender may not deny a Loan solely on the basis of CAIVRS information that has not been verified by the Lender. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Lender may continue to process the loan application.

(c) Resolution

In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

(d) Required Documentation

The Lender must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the Lender may obtain evidence of resolution by obtaining a clear CAIVRS report.

(9) Eligibility Period for Borrowers Delinquent on FHA-insured Loans

If a Borrower is currently Delinquent on an FHA-insured Loan, they are ineligible for insurance on a new FHA Loan unless the delinquency is resolved.

(10) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

Tax liens may remain unpaid if the Borrower has entered a valid repayment agreement with the federal agency owed to make regular payments on the debt, and the Borrower has made timely payments for at least three months of scheduled payments prior to the date of application. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The Lender must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

(b) Verification

Lenders must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

(c) Required Documentation

The Lender must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.

(11) Valid First Liens

(a) Standard

The Borrower must be able to provide a valid first lien on the Property securing the debt. The Lender must ensure that the Property will be free and clear of all liens other than for the FHA-insured Manufactured Home Loan.

(b) Consent of Non-purchasing Spouses

If it is necessary to perfect a valid first lien under state law, the Lender must require a non-purchasing spouse to execute either the security instrument or documentation indicating that they are relinquishing all rights to the Property.

(c) Required Documentation

The lien must be documented in the case binder by a Lender or deed of trust, executed by the Borrower and in Fee Simple.

(12) Eligibility Requirements for Living Trusts

(a) Property Held in Living Trusts

The Lender must not originate a Title I Manufactured Home Loan for a Property held by the living trust.

(b) Living Trusts and Security Instruments

The security instrument, such as a Loan or deed of trust, must not name a living trust as property owner.

The individual borrower name(s) must appear on the security instrument, property deed, and title.

(E) Excluded Parties

(1) Borrower

(a) Standard

Borrowers with a new Loan or assumption are not eligible to participate in FHA-insured loan transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.

Exception

Establishing Excluded Parties is not required for an existing Borrower being evaluated under Loss Mitigation Tools.

(b) Required Documentation

The Lender must check the HUD LDP List to confirm the Borrower's eligibility to participate in an FHA-insured loan transaction.

The Lender must check SAM and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(2) Other Parties to the Transaction

(a) Standard

A Loan is not eligible for FHA insurance if anyone participating in the loan transaction is found on HUD's LDP List or in SAM. This may include but is not limited to:

- Borrower
- seller (except where selling the Principal Residence)
- Dealer or retailer
- listing or selling real estate agent
- loan officer
- loan processor
- underwriter
- Appraiser
- broker

(b) Required Documentation

The Lender must check the HUD LDP List and SAM, and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(3) FHA Policy Limiting the Number of Title I Manufactured Home Loans per Borrower

(a) Standard

A Borrower with an existing FHA-insured Manufactured Home Loan may not obtain an additional FHA-insured Manufactured Home Loan with Title I insurance.

A Borrower with an existing FHA-insured Manufactured Home Loan may obtain a Title I FHA-insured Property Improvement Loan.

(b) Required Documentation

Each Borrower purchasing a Manufactured Home must sign form HUD-56002-MH, *Placement Certificate for Manufactured Home*, to certify that the Property will be the Borrower's Principal Residence.

The Lender must review the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65), form HUD-92900-TI, and other loan documents to assess if the Borrower owns property other than Property associated with the transaction. If the Borrower owns other property, the *URLA* must identify the property

address, expenses for debt, taxes and insurance, and its use as either a Secondary Residence or for investment.

(F) Occupancy Types

(1) Principal Residence

(a) Definition

A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

(b) Standard

(i) FHA Requirement for Establishing Owner Occupancy

All Borrowers must occupy the Property within 60 Days of signing the security instrument.

(ii) FHA Insurance on a Principal Residence

FHA will *not* insure a Manufactured Home Loan if it is determined that the transaction was designed to use FHA loan insurance as a vehicle for obtaining Investment Properties, even if the Property to be insured will be the *only* one owned using FHA loan insurance.

(2) Secondary Residence

(a) Definition

A Secondary Residence refers to a Structure that a Borrower occupies in addition to their Principal Residence, but less than a majority of the calendar year. A Secondary Residence does not include a Vacation Home.

(b) Standard

Secondary Residences are not permitted under the Title I Manufactured Home Loan program.

(3) Investment

(a) Definition

An Investment Property refers to a Property that is *not* occupied by the Borrower as a Principal or Secondary Residence.

(b) Standard

Investment Properties are not permitted under the Title I Manufactured Home Loan program.

(G) General Property Eligibility

(1) Eligible Geographic Locations

The Property must be located within the U.S., Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

(2) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA loan insurance if the improvements are in or are proposed to be located within the Coastal Barrier Resources System (CBRS).

(3) Hazard Insurance

(a) Standard

Hazard insurance is required for all Manufactured Homes and must be maintained for the life of the insured Loan. Hazard insurance is not required for FHA-insured Loans that secure a lot.

The minimum amount of insurance must be the greater of the unpaid balance due on the Title I Loan or the actual value of the home where state law precludes a higher amount.

The Lender must be named as the loss payee.

(b) Lender Responsibilities

If during the lender term the Borrower does not maintain the required hazard insurance, the Lender must obtain the insurance and may pass on the expense to the Borrower. The Lender assumes the risk and potential costs on a Property that is not insured in compliance with the above requirements.

(c) Required Documentation

The Lender must maintain a copy of the Declarations page throughout the life of the Loan.

(4) Special Flood Hazard Areas

The Lender must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA).

The Lender must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

Flood Insurance is required when any portion of the home site or residential improvement including Structures or equipment essential to the value is located in an SFHA identified by FEMA using the Life of the Loan Flood Certification and must be maintained for the life of the insured Loan.

A Property is not eligible for FHA insurance if a home site on which a Manufactured Home is placed is:

- located within SFHA Zone V, a Coastal High Hazard Area; or
- located within SFHA Zone A and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- proposed to be located within a CBRS.

A Property may be eligible for FHA insurance if a home site on which the Manufactured Home is placed is located in an SFHA if:

- a FEMA issued Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) removes the Property from the SFHA; or
- a FEMA NFIP Elevation Certificate (FEMA Form FF-206-FY-22-152) shows the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation.

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the NFIP and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(5) Flood Insurance

(a) Standard

Flood Insurance is required if the Property to be improved is secured and is located in a FEMA designated flood hazard area.

The amount of insurance must be no less than the unpaid balance due on the Title I Loan, and the Lender must be named as the loss payee.

Prior to closing, Lenders must inform Borrowers of the requirement to have or obtain adequate Flood Insurance as a condition of closing for Properties where

any portion of the dwelling and related Structures or equipment essential to the Property Value is located in an SFHA.

Flood Insurance must be maintained for the life of the insured Loan.

(b) Required Documentation

The Lender must obtain the Life of the Loan Flood Certification indicating whether or not the home site is located within an SFHA.

When the home site is located in an SFHA, the Lender must provide HUD a copy of the pages from the Flood Insurance policy showing the coverage amount required and reflecting the Lender as the loss payee.

(i) Requirements for Private Flood Insurance

If the Borrower purchases a Private Flood Insurance (PFI) policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;
- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of Property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar nonapplicability provisions, as under a standard Flood Insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;

- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(ii) Private Flood Insurance Policy Compliance Aid

Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: "This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages."

Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. A Mortgagee may not reject a policy solely because it is not accompanied by a PFI Policy Compliance Aid.

b. Allowable Loan Parameters (03/29/2024)

i. Maximum Loan Amounts

All Loans are subject to loan amount limits based on all of the following:

- Nationwide Loan Limits;
- Minimum Cash Investment (MCI);
- Minimum Decision Credit Score limitations;
- maximum Loan-to-Value (LTV); and
- LTV calculation applicable to the transaction type.

Unless explicitly stated for a transaction type, the loan limits apply to all property types and loan purposes.

(A) Nationwide Loan Limits

The final Loan amount must not exceed the loan limit set by HUD, which includes any portion of the Upfront Insurance Premium (UFIP) and Financeable Fees and Charges that are to be financed. The loan limits are available at Financing Manufactured (Mobile) Homes.

Title I Manufactured Housing Nationwide Loan Limits are established in accordance with Title I Section 2(b) of the National Housing Act based upon loan type:

- Manufactured Home Loan (Single-section), $105,532
- Manufactured Home Loan (Multi-section), $193,719
- Combination Loan (Single-section), $148,909
- Combination Loan (Multi-section), $237,096
- Manufactured Home Lot Loan, $43,377

The Nationwide Loan Limits will be reviewed annually and adjusted accordingly.

(B) Required Investment

(1) Total Required Investment

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower's downpayment and the Borrower-paid transaction costs. The Total Required Investment includes the MCI.

(2) Minimum Cash Investment

Minimum Cash Investment (MCI) refers to the Borrower's contribution in cash or its equivalent required, which represents at least 5 percent of the total purchase price for a maximum LTV of 95 percent. The MCI for a Borrower with a credit score of 500 and below will be 10 percent of the total purchase price.

When the credit report reflects that a score is not available from any of the three credit reporting agencies, and non-traditional underwriting demonstrates that the Borrower has satisfactory credit, then an MCI of at least 5 percent of the total purchase price is required. See Credit Requirements for credit report requirements.

Credit Score	Minimum Downpayment	Maximum LTV
Above 500	5%	95%
500 and Below	10%	90%

(C) LTV Limitations Based on Borrower's Credit Score

The Lender must review the credit report to determine the Borrower's Minimum Decision Credit Score (MDCS).

The MDCS will be used to determine the maximum insured financing available to a Borrower with traditional credit.

The table below describes the relationship between the Borrower's MDCS and the LTV ratio for which they are eligible.

If the Borrower's Minimum Decision Credit Score is...	Then the maximum Loan-to-Value is...
Above 500	95%
500 and below	90%

(D) Calculating the Loan-to-Value

The Lender must calculate the LTV to determine the maximum Base Loan Amount, which is the amount prior to adding in the Upfront Insurance Premium (UFIP). The Base Loan Amount may be increased by the financed UFIP amount, but must not exceed the Nationwide Loan Limits.

The LTV is calculated according to the specific loan purpose.

(E) Calculating the Maximum Loan Amount Purchase Transactions

(1) Maximum Base Loan Amount for New Manufactured Home

The maximum Base Loan Amount is determined by applying the LTV (95 percent or 90 percent) to the sum of the following amounts:

- 130 percent of the sum of the wholesale (base) price of the home plus eligible itemized options, including the charge for freight, as detailed on the Manufacturer's Invoice;
- sales tax to be paid by the Borrower, as detailed in the retail sales contract;
- Dealer's actual cost of transportation to the home site, set-up and anchoring, including the rental of wheels and axles (if not included in the freight charges);
- Dealer's actual cost for skirting, garage, carport, patio, or other appurtenance, and for purchase and installation of a central air conditioning system or heat pump (if not installed by the manufacturer); and
- Financeable Fees and Charges.

(2) Maximum Base Loan Amount for Existing Manufactured Home

The maximum Base Loan Amount is determined by multiplying the appropriate LTV factor (95 percent or 90 percent) to the lesser of:

- the appraised value of the home as described in the sales contract, including any Eligible Options and Accessories itemized in the sales contract or documented in the file; or
- the purchase price of the home, including costs to the Borrower for all items described in the sales contract and any Eligible Options and Accessories as documented in the file.

(3) Eligible Options or Costs

Eligible options or costs include:

- sales tax to be paid by the Borrower, as described in the sales contract;
- actual costs of transportation to the home site, setup and anchoring, including the rental of wheels and axles (if home is being relocated);
- actual cost for new skirting, garage, carport, patio, or other appurtenance, and for purchase and installation of a central air conditioning system or heat pump;
- actual cost of running and connecting electric power lines to the home, but only for borrower-owned land; and
- Financeable Fees and Charges in the Loan.

(4) Ineligible Costs

Ineligible costs cannot be financed into the loan amount. Ineligible costs include furniture, personal items (rugs, draperies, lamps, etc.), small appliances that are not part of the Property (toasters, TVs, etc.), and the purchase of wheels and axles.

(F) Required Documentation for LTV Calculation

The case binder must contain:

- a summary page that itemizes the expenses and reflects calculations used to determine the LTV ratio; and
- the supporting documents for itemized costs, as applicable:
  - sales contract; and
  - receipts or invoices to evidence actual cost of allowable items, when not reflected in the sales contract.

ii. Loan Term

(A) Minimum Loan Term

The minimum loan term for all property types and purposes is six months.

(B) Maximum Loan Term

The maximum term is limited according to the type of Property secured.

The maximum loan term for a single-unit Combination Loan may not exceed 20 years and 32 Days from the date of the Loan. The maximum loan term for a multi-unit Combination Loan may not exceed 25 years and 32 Days from the date of the Loan.

Property Type	Maximum Loan Term
Manufactured Home	20 years, plus 32 Days
Manufactured Home Lot	15 years, plus 32 Days

Property Type	Maximum Loan Term
Single Unit Manufactured Home and Lot	20 years, plus 32 Days
Multi-Unit Manufactured Home and Lot	25 years, plus 32 Days

iii. Loan Insurance Premiums

FHA collects a UFIP and an annual insurance premium charge for eligible Loans originated under the FHA Title I Manufactured Home Loan program.

(A) Upfront Insurance Premium

(1) Upfront Insurance Premium Amount

FHA's Manufactured Home insurance program requires the payment of UFIP, which may be financed into the Loan. The UFIP is 2.25 percent of the Base Loan Amount.

The UFIP charge may be financed into the Loan in full or in part, provided that the Total Loan Amount does not exceed the Nationwide Loan Limits. If all or part of the UFIP exceeds the Nationwide Loan Limits, the Borrower must pay the excess in cash.

Unless otherwise stated in this section (Underwriting the Transaction), restrictions to loan amounts and LTVs are based upon the amount prior to the financing of the UFIP (Base Loan Amount). The Total Loan Amount may be increased by the financed UFIP amount.

(2) Refund and Credit of Upfront Insurance Premium

FHA will only refund the UFIP if a Loan is not endorsed for insurance. The refund will be returned to the Lender who must apply the refund to the principal balance of the subject Loan.

(B) Annual Loan Insurance Premium

The periodic loan insurance premium is an annual loan insurance premium that is payable monthly. The loan insurance premium charge is 1 percent of the remaining principal balance, based upon the Loan's scheduled amortization.

The loan insurance premium must be paid for the full term of the Loan unless the Loan is prepaid in full or the Lender files a claim with FHA.

(C) Lender Responsibilities

(1) Insuring an Advance of Credit

Manufactured Home Loans may be evidenced by advances of credit, such as retail sales installment contracts, in which the Borrower(s) agrees to pay the Dealer over a period of time. To insure an advance of credit as a Title I Loan, an FHA-approved Lender purchases the advance of credit. Because the Dealer is not eligible to insure such a Loan, Title I insurance charges cannot be included in the retail sales installment contract.

(2) Passing Insurance Premiums to Borrower

The UFIP and annual insurance premiums are obligations of the Lender. The Lender may pass the premium charges on to the Borrower, provided that such charges are fully disclosed.

To pass the obligation to pay UFIP and annual insurance premiums to the Borrower, the Lender must obtain a signed agreement from the Borrower in which the Borrower agrees to:

- an increase in the principal amount of the Loan from what is shown on the retail sales installment contract to an amount that includes both the principal amount on the retail sales installment contract and the amount of the financeable upfront insurance charge;
- pay the Lender for any portion of the upfront insurance charge that cannot be financed; and
- pay the Lender for the monthly insurance charge ($1/12^{th}$ of the annual premium) in addition to the monthly Loan Payment set in the retail sales installment contract.

Lenders are free to adopt any method that does not violate applicable law, but FHA suggests that the agreement be effectuated by a rider to the retail installment sales contract, if applicable. The rider must be executed by all Borrowers on the Loan at the same time that the retail installment sales contract is executed.

(D) Required Documentation

(1) Borrower's Agreement to Pay Loan Insurance Premiums

The Lender's file must contain the Borrower's agreement to pay loan insurance premiums. The agreement may be effectuated through the form of a rider to the retail installment contract or other method, and must be signed by all Borrowers.

(2) Rider for Insurance Premiums

Loans originated by Dealers must have the Borrower execute a rider for loan insurance premiums, which authorizes the Lender to charge the Borrower for the charges.

(3) Suggested Language for Rider for Insurance Premiums

FHA does not supply a form for the rider. Lenders may use the suggested language as follows on their letterhead. The form must be signed by all Borrowers obligated on the Loan.

RIDER – UPFRONT INSURANCE PREMIUM

This rider is made this ____ day of _____, and is incorporated into and shall be deemed to amend and supplement the retail installment sales contract of the same date given by the undersigned borrower(s) to (insert name of dealer) to finance the purchase of (insert description of the manufactured home).

The loan to whom this retail installment sales contract (the loan) has been assigned will be insured against loss in the event of a borrower default by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). FHA charges the lender an upfront insurance premium at the time the loan is insured and annual premiums during the term of the loan. The lender is authorized by FHA to collect such premiums from the borrower(s), and this rider constitutes the consent of the borrower(s) to reimburse the lender for such premiums, as follows:

CHECK APPLICABLE BOXES

Upfront Insurance Premium Fully Financed.

The upfront premium is (insert number) percent of $ _____, the amount financed shown on the face of the retail sale installment contract, which equals $(insert number). The upfront premium, when added to the amount financed, results in a new amount financed that is equal to or less than FHA's maximum loan amount, and therefore the upfront premium is financed in its entirety with this lender. The new amount financed is $(insert original amount financed + upfront premium). This results in an increased monthly payment. The revised monthly payment is $(insert new amount).

Upfront Insurance is Partially Financed.

The upfront premium is (insert number) percent of $_____, the amount financed shown on the face of the retail sale installment contract, which equals $(insert number). The upfront premium, when added to the amount financed, results in a new amount financed that exceeds FHA's maximum loan amount, and

therefore the upfront premium is partially financed with this lender, to the extent that it results in a new amount financed equal to the FHA maximum loan amount. Borrower(s) will pay the lender the balance of the upfront premium... The new amount financed is $(insert original amount financed + financeable amount of upfront premium). As a result of the increase in the amount financed, the monthly payment is $(insert new amount).

Upfront Insurance Cannot be Financed.

The upfront premium is (insert number) percent of $_____, the amount financed shown on the face of the retail sale installment contract, which equals $(insert number). The upfront premium cannot be financed because the amount financed is equal to FHA's maximum loan amount. Borrower(s) will pay the lender the upfront premium.

Annual Premium Cannot be Financed

The annual premiums are based upon the declining balance of the original amount financed, and thus will change every year. Borrower(s) will pay 1/12 of each annual premium each month in addition to the monthly loan payment set forth in paragraph (a). The initial monthly premium payment is $(insert number). The lender will advise the borrower(s) of each annual change in the monthly premium payment.

c. Property Requirements (05/09/2022)

i. Definitions

(A) Manufactured Home

A Manufactured Home refers to a transportable Structure, comprised of one or more modules, each built on a permanent chassis, with or without a permanent foundation, designed for occupancy as a Principal Residence by a single family.

(B) New Manufactured Home

A New Manufactured Home refers to a home, which has not been previously occupied, purchased by a Borrower within 18 months after the date of manufacture.

(C) Existing Manufactured Home

An Existing Manufactured Home refers to a home purchased later than 18 months after the date of manufacture; it must be appraised to determine the maximum loan amount.

(D) Manufactured Home Lot

Manufactured Home Lot refers to a portion of land owned or to be owned by the Borrower as realty, and is suitable for placement of a Manufactured Home. The manufactured home lot may consist of:

- platted or unplatted land, a lot in a recorded or unrecorded subdivision or in an improved area of such subdivision, or a lot in a Planned Unit Development (PUD); or
- an interest in a manufactured home Condominium Project (including any interest in the common areas) or a share in a cooperative association that owns and operates a manufactured home park.

(E) Manufactured Home

A Manufactured Home is constructed in compliance with the Manufactured Home Construction and Safety Standards Act of 1974 (42 U.S.C. §§ 5401–5426) at 24 CFR Part 3280, and is exclusive of the land on which the home is set. The Property may include the garage, patio, carport, or other comparable appurtenance. The Manufactured Home:

- may be treated as Personal Property or Chattel when it retains its vehicle title (or certificate of title); or
- may be treated as realty by the state or locality in which the Property is located, and for which the vehicle title is surrendered and canceled.

When the Manufactured Home is treated as Personal Property, Lenders may take a security interest in the Manufactured Home as Personal Property and concurrently place a real property lien on the land. FHA permits Manufactured Homes to be split from the land and secured separately.

(F) Manufactured Home and Lot Combination

Manufactured Home and Lot Combination refers to an eligible Manufactured Home and manufactured home lot on which the Manufactured Home is placed.

(G) Manufacturer's Invoice

Manufacturer's Invoice refers to a document issued by a manufacturer and provided with a Manufactured Home to a retail dealer that separately details the wholesale (base) prices at the factory for specific models or series of Manufactured Homes and itemized options (large appliances, built-in items and equipment), plus actual itemized charges for freight from the factory to the Dealer's lot or the home site (including any rental of wheels and axles) and for any sales taxes to be paid by the Dealer. The invoice may recite such prices and charges on an itemized basis or by stating an aggregate price or charge, as appropriate, for each category. The manufacturer shall certify on the invoice, or on a supplement which is attached to and made a part of the invoice, as follows:

The undersigned certifies under applicable criminal and civil penalties for fraud and misrepresentation that: (1) The wholesale (base) prices for the manufactured home and itemized options, the charges for freight and dealer-paid sales taxes, and all other statements in this invoice are true and accurate; (2) all such prices reflect the actual dealer costs at the factory, as quoted in the applicable current manufacturer's wholesale (base) price list; (3) except for any payments of volume incentives or special benefits related to this transaction, all such prices and charges exclude any costs of trade association fees or charges, discounts, bonuses, refunds, rebates, prizes, loan discount points or other financing charges, or anything else of more than nominal value which will inure to the benefit of the dealer and/or home purchaser at any date; and (4) the manufacturer has not made and will not make any payments to or for the benefit of the dealer and/or home purchaser that are not disclosed on this invoice or invoice supplement.

ii. Standard

(A) HUD Certification Label

(1) Definition

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Housing.

(2) Standard

The HUD tag should be located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the house as practicable.

The Manufactured Home must comply with standards for livability and durability as specified in HUD Code, formally known as the National Manufactured Housing Construction and Safety Standards Act of 1974 (42 U.S.C. §§ 5401–5426) at 24 CFR Part 3280. All Manufactured Homes built since June 15, 1976 must comply with these standards.

The manufacturer must certify that a Manufactured Home is constructed in compliance with HUD Code by affixing a red HUD Certification Label to the home. Etched on the certification label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

When the HUD seal is missing or not found, Lenders must obtain label verification from the Institute for Building Technology and Safety (IBTS).

A manufactured home appraisal must reflect the serial number from the HUD Seal. A manufactured home appraisal is required for:

- a purchase of an Existing Manufactured Home (older than 18 months from date of manufacture);
- a non-streamline refinance of a Manufactured Home Loan; or
- each Loan for which the Lender files a claim.

(B) Data Plate

Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen. The Data Plate provides information, such as the manufacturer name, serial number, model and date of manufacture, as well as wind, roof load and thermal zone maps. If the Data Plate is missing or the Appraiser is unable to locate it, the Lender is not required to obtain the Data Plate information from another source.

The Lender, or an agent of the Lender that is not a Dealer, must conduct an inspection of the Manufactured Home after it has been delivered and installed at the home site.

iii. Required Documentation

(A) Invoice or Appraisal

The case binder must contain the invoice showing the date of manufacture, or the home appraisal showing the age of the home.

(B) Certification of Compliance with HUD Code

For New Manufactured Homes, a certification that the home was constructed in compliance with HUD Code must be reflected by a certification on the Manufacturer's Invoice or invoice supplement, which is signed by the manufacturer's authorized representative.

(C) Manufacturer's Warranty

On New Manufactured Home purchases, the home manufacturer must furnish the Borrower with a one year written warranty. The warranty must be provided at no cost to the Borrower.

An authorized representative of the manufacturer must execute the warranty on form HUD-55014, *Warranty for New Manufactured Home*. The warranty must be effective as of the actual date that the Borrower takes possession of the home. A copy of the warranty must be contained in the Borrower's case binder.

iv. Options and Accessories

Transactions for New and Existing Manufactured Homes may include eligible options and accessories, provided that these options are itemized on the Manufacturer's Invoice,

sales contract, and/or a separate bill of sale. Only the actual cost of such items may be considered when calculating the maximum loan amount.

(A) Eligible Options and Accessories

The following items may be considered when calculating the maximum loan amount, not to exceed actual costs:

- skirting;
- garage, carport, patio or other comparable appurtenance to the home; and
- purchase and installation of a central air conditioning system or heat pump (if not already installed by the manufacturer).

(B) Ineligible Options and Accessories

The following items may not be considered when calculating the maximum loan amount:

- furniture and other articles of Personal Property (lamps, rugs, draperies, etc.);
- small appliances that are not part of the Property (toasters, TVs, etc.); and
- purchase of wheels and axles.

Furniture refers to movable articles of Personal Property relating to a home or dwelling, such as beds, chairs, sofas, lamps, tables, rugs, etc.; however, furniture does not include:

- items built into the home or dwelling such as wall-to-wall carpeting or heating or cooling equipment; or
- large appliances such as refrigerators, ovens, ranges, dishwashers, clothes washers or clothes dryers.

v. Manufactured Home Site Eligibility

(A) Standard

The site must comply with standards, ordinances, and regulations, if any, issued by state or local government and must:

- be served by adequate utility connections;
- provide Adequate Vehicular Access from a public right-of-way;
- have an adequate water supply and adequate sewerage disposal system. The site must use public or Community Water Systems and sewerage systems, unless such systems are unavailable to provide an adequate level of service to the manufactured home site;
- comply with local or state minimum lot area requirements for water or sewage systems, if the site is served by such systems; and
- meet the water quality standards set by the U.S. Environmental Protection Agency (EPA), as presented in the National Primary Drinking Water regulations in 40 CFR Parts 141–142, if there are no local or state water quality standards.

(B) Required Documentation

The Lender must document that the home site complies with the standards outlined above and provides a suitable site for a Manufactured Home.

The Lender must obtain one of the following:

- a certification signed by a local government representative or registered civil engineer certifying that the private site meets the above site standards;
- a certification signed by a local government representative or a jurisdiction of licensing authority responsible for approval of manufactured housing community development;
- a building permit for the site from the local government and a water and sewer permit from the water authority; or
- a Certificate of Occupancy (CO) for the site signed by a local government representative.

A site inspector who is a registered civil engineer may be an employee of the Lender, but may not be employed by the seller or have a financial interest in the subject transaction. The written certification must be retained in the case binder.

vi. Site Lease

(A) Standard

For a leased site in a community of three or more Manufactured Homes on adjacent lots which are all owned by the same entity, the Lender must verify that the lease includes the following provisions:

- the lease term must be for a term of three years or longer;
- the lease term must be renewable upon the expiration of the original term by successive terms of one year or more; and
- the lease must require the lessor to provide the lessee written notice of termination of the lease not less than 180 Days prior to the expiration of the current lease term in the event the lessee is required to move due to the closing of the manufactured home community. The lease must further provide that the lessor's failure to give such notice to the lessee in a timely manner will cause the lease term, at its expiration, to automatically renew for an additional one-year term.

All leases must:

- state the property address, term of the lease, amount of monthly rent and be signed by the land owner and the Borrower; and
- disclose any potential increase to lot rent as needed or required by the park owner.

A lease may require Borrower-lessees to comply with park rules and regulations and be subject to termination for violations.

(B) Required Documentation

The lender file must contain a copy of the land lease that reflects provisions listed in the standard above for lease term, renewals, and minimum advance notice to the Borrower for lease termination.

vii. Native American Reservations and Other Restricted Lands

(A) Standard

A Manufactured Home may be placed on an owned or leased site within Native American trust or otherwise restricted lands.

(B) Required Documentation

The trustee or the tribal authority that controls the use of the site provides written permission for the Borrower to install a Manufactured Home on the site and written permission for the Lender to repossess the home in the event of Default by the Borrower and acceleration of the Loan.

viii. Manufactured Home Installation Requirements

(A) Standard

(1) New Manufactured Home or Relocated Existing Manufactured Home

The installation or erection of a Manufactured Home on the home site must meet or exceed the requirements set forth in:

- 24 CFR Part 3285, Model Manufactured Home Installation Standards;
- 24 CFR Part 3286, Manufactured Home Installation Program; and
- any state or local requirements governing the installation and construction of the manufactured home foundation system that exceed the Model Manufactured Home Installation Standards.

Installation of a relocated existing home must be performed by a licensed installer.

(2) Existing Manufactured Home – Not Relocated

An Existing Manufactured Home that has not been relocated from the home site upon which it was originally erected must have been installed in compliance with the manufacturer's requirements for anchoring, support, stability, and maintenance.

(B) Required Documentation

For all Manufactured Home Loans, the Lender must obtain an executed form HUD-56002-MH.

Each Borrower must sign the section entitled Notice to Borrowers. The Dealer and/or retailer must sign the Notice to Dealers whenever the home is purchased through a Dealer/retailer.

Form HUD-56002-MH must be retained in the case binder.

ix. Appraisals

When an appraisal is required, the Lender must engage a Chattel Appraiser who is not engaged in the business of manufactured home retail sales.

(A) Appraisal Requirement for Manufactured Home Lot

The Lender must obtain an appraisal for the financing of a manufactured home lot by itself, or in combination with a manufactured home chattel unit.

Exception

An appraisal is not required for lots that are leased, and not secured by a lien.

(B) Appraisal Requirements for Manufactured Home

Appraisals are required on the secured Property, for the following transactions or events:

- purchase of an Existing Manufactured Home (older than 18 months from date of manufacture);
- refinance of an existing Title I Manufactured Home Loan with an advance to purchase a lot;
- Conventional to Title I Refinance;
- Conventional to Title I Refinance with an advance of funds; or
- Short Sales and claims.

When the Manufactured Home is classified as Real Property, Lenders must use an FHA Roster Appraiser who can certify to prior experience appraising Manufactured Homes as Real Property.

(C) Appraisal Requirements for Manufactured Home and Lot Combination

Appraisals are required on the secured Property, for the following transactions or events:

- purchase of an Existing Manufactured Home (older than 18 months from date of manufacture);

- refinance of an existing Title I Manufactured Home Loan with an advance to purchase a lot;
- Conventional to Title I Refinance;
- Conventional to Title I Refinance with an advance of funds; or
- Short Sales and claims.

When the Manufactured Home and lot are classified as Real Property, Lenders must use an FHA Roster Appraiser who can certify to prior experience appraising Manufactured Homes as Real Property.

Appraisals are *not* required for the following transaction types:

- Title I purchase of a New Manufactured Home;
- Streamline Title I Refinance transactions;
- Simple Title I Refinance;
- Title I Refinance with advance of funds to purchase a New Manufactured Home; or
- lots that are leased, and not secured by a lien.

(D) Lender Requirements

(1) Prior to Commencement of the Appraisal

The Lender must determine that the Appraiser is competent to provide an appraisal for the interest(s) to be appraised and has access to appropriate third-party data sources in order to render a credible opinion of value for the Property.

Lenders may obtain separate appraisals on a Manufactured Home classified as Chattel (or Personal Property), and the borrower-owned land lot on which the home is set, and may use different Appraisers for the different interests if necessary.

(2) Information Provided to the Appraiser

The Lender must provide the Appraiser with a complete copy of the executed contract for sale of the Manufactured Home and land, or, if the Manufactured Home and land are being purchased separately, the executed contract for each.

The Lender must also provide the Appraiser with a copy of the manufactured home invoice when one exists.

(3) Valuation Development – Borrower-Owned Land and Manufactured Home – Real Estate

When the secured Property consists of a borrower-owned lot and a Manufactured Home that are, in combination, treated as real estate by the local government, the Lender must obtain a single appraisal from an FHA Roster Appraiser, use Fannie

Mae Form 1004C/Freddie Mac Form 70B, *Manufactured Home Appraisal Report,* and follow the guidance noted in Appraiser and Property Requirements for Title II Forward and Reverse Mortgages.

(4) Valuation Development – Borrower-Owned Lot

When the secured Property consists of a borrower-owned lot, the Lender must obtain an appraisal from an FHA Roster Appraiser. The appraisal of the land must comply with Required Analysis and Reporting for Unimproved Property Appraisal.

(5) Lender Review of Appraisal

The Lender must review the appraisal and other documentation provided by the Appraiser for errors. If the Lender discovers any errors on the appraisal, the report must be returned to the Appraiser for correction.

For an appraisal that was prepared using the National Appraisal System (NAS), the Lender must verify that the Appraisal reflects the correct Property and features.

The Lender must ensure that the Appraiser used the NAS-generated forms, did not omit figures or features that would increase the value, and that the information is legible.

x. Property Assessed Clean Energy

Properties which will remain encumbered with a Property Assessed Clean Energy (PACE) obligation are not eligible for Title I Manufactured Home loans.

d. Underwriting the Borrower (11/10/2026)

The Lender must evaluate the Borrower's ability and willingness to repay a Loan for the purchase or refinance of a Title I Manufactured Home Loan product. The Lender must exercise prudent underwriting practices when evaluating the creditworthiness of the Borrower and the value of the Property being offered as collateral, in order to limit the risk of Default.

Title I Loans are not eligible for automated underwriting through the Technology Open To Approved Lenders (TOTAL) Scorecard.

Once it is determined that the Borrower and the Property are eligible, analysis of the Borrower's credit must be performed for final loan approval, including review and documentation of the following:

- downpayment and other required funds
- credit history
- employment history

- income
- assets
- liabilities
- debt ratios
- compensating factors

If the Loan involves a HUD employee, the Lender must underwrite the transaction in accordance with the guidance in this section. The Lender must submit the underwritten loan application package to the Director of the Financial Operations Center (FOC) for final underwriting approval.

i. Credit Requirements

(A) General Credit Requirements

FHA's general credit policy requires Lenders to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

The Lender must obtain a merged credit report from an independent consumer reporting agency.

The Lender must obtain a credit report for each Borrower who will be obligated on the loan Note. The Lender may obtain a joint report for individuals with joint accounts.

Before making a determination on the creditworthiness of an applicant, a Lender must conduct an interview to resolve any material discrepancies between the information on the loan application and information on the credit report to determine accurate and complete information.

The Lender is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions.

(B) Types of Credit History

(1) Traditional Credit

Lenders must pull a credit report that draws and merges information from three national credit bureaus. Lenders are prohibited from developing non-traditional credit history to use in place of a traditional credit report.

If the credit report generates a credit score, the Lender must utilize traditional credit history.

(a) Requirements for the Credit Report

Credit reports must obtain all information from three credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The Lender must retain copies of all credit reports.

The credit report must include:

- the name of the Lender ordering the report;
- the name, address, and telephone number of the consumer reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA loan insurance purposes provided that the loan application captures the full nine-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the FCRA, including information for the last seven years regarding:
  - bankruptcies;
  - Judgments;
  - lawsuits;
  - foreclosures; and
  - tax liens; and
- for each Borrower debt listed:
  - the date the account was opened;
  - high credit amount;
  - required monthly payment amount;
  - unpaid balance; and
  - payment history.

(b) Updated Credit Report or Supplement to the Credit Report

The Lender must obtain an updated credit report or supplement if the underwriter identifies material inconsistencies between any information in the case binder and the original credit report.

(2) Non-traditional Credit

For Borrowers without a credit score, the Lender must independently develop the Borrower's credit history using the requirements outlined below.

(a) Independent Verification of Non-traditional Credit Providers

The Lender may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

To verify the existence of each credit provider, the Lender must review public records from the state, county, or city or other documents providing a similar level of objective information.

To verify credit information, the Lender must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
- obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the Borrower's rental payment history, the Lender must obtain a rental reference from the appropriate rental management company or landlord, demonstrating the timing of payment for the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(b) Sufficiency of Non-traditional Credit References

To be sufficient to establish the Borrower's credit, the non-traditional credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;
  - water;
  - television service; or
  - Internet service.

If the Lender cannot obtain all three credit references from the list above, the Lender may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance);
- payment to child care providers made to businesses that provide such services;
- school tuition;

- retail store credit cards (e.g., from department, furniture, or appliance stores, or specialty stores);
- rent-to-own (e.g., furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
  - were made at least quarterly;
  - were not payroll deducted; and
  - caused no Insufficient Funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

(3) Minimum Decision Credit Score

(a) Definition

The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where three differing scores are reported, the middle score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that score is the MDCS.

An MDCS is determined for each Borrower.

(b) Standard

The Lender must determine the MDCS.

An MDCS has not been established for Title I Manufactured Home Loans that would replace the credit underwriting requirements for this program.

The credit score will only affect the amount of downpayment required.

(c) Required Documentation/Data Entry

When credit scores are available, the Lender must report all scores in FHAC for each Borrower.

(C) Evaluating Credit History

(1) General Credit

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.

(2) Types of Payment Histories

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving accounts.

(a) Satisfactory Credit

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Loan Payments or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.

Major derogatory credit excludes medical collections. On revolving accounts, major derogatory credit must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

(b) Payment History Requiring Additional Analysis

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

The Lender must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Lender must document this analysis in the case binder. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

(3) Payment History on Housing Obligations

The Lender must determine the Borrower's housing obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Loan Payments received directly from the loan Servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Lender must verify and document the previous 12 months of housing history. For Borrowers who indicate they are living rent-free, the Lender must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent-free.

A Loan that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

(4) Collection Accounts

(a) Definition

A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.

(b) Standard

The Lender must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

The Lender may disregard collections occurring more than two years prior to the date of loan application.

(c) Required Documentation

The Lender must document reasons for approving a Loan when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file. Collections occurring more than two years ago do not require explanation.

(5) Charge Off Accounts

(a) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(b) Standard

The Lender must determine if Charge Off Accounts in the past 24 months were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(c) Required Documentation

The Lender must document reasons for approving a Loan when the Borrower has any Charge Off Accounts in the past 24 months.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

(6) Disputed Derogatory Credit Accounts

(a) Definition

Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(b) Standard

The Lender must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items may be excluded from consideration in the underwriting analysis:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Lender includes a copy of the police report or other documentation from the creditor to support the status of the account in the case binder.

(c) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Lender must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(7) Judgments

(a) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(b) Standard

The Lender must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

Regardless of the amount of outstanding Judgments, the Lender must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured Loan lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The Lender must include the payment amount in the agreement in the calculation of the Borrower's DTI ratio.

The Lender must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

(c) Required Documentation

The Lender must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with the creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

(8) Bankruptcy

(a) Standard: Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Loan if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During the most recent two years, the Borrower must have:

- re-established good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

- can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(b) Standard: Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Loan, if at the time of case number assignment at least 12 months of the payout period under the bankruptcy has elapsed.

The Lender must determine that during the most recent 12 months, the Borrower's payment performance has been satisfactory and all required payments have been made on time, and the Borrower has received written permission from bankruptcy court to enter into the loan transaction.

(c) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Lender must obtain the bankruptcy and discharge documents.

The Lender must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

(9) Foreclosure and Deed-in-Lieu of Foreclosure

(a) Standard

A Borrower is generally not eligible for a new FHA-insured Loan if the Borrower had a foreclosure or a Deed-in-Lieu (DIL) of Foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing entity/designee.

Exception

The Lender may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the foreclosure.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(b) Required Documentation

If the credit report does not indicate the date of the foreclosure or DIL of Foreclosure, the Lender must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

If the foreclosure or DIL of Foreclosure was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(10) Pre-Foreclosure Sales (Short Sales)

(a) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(b) Standard

A Borrower is generally not eligible for a new FHA-insured Loan if they relinquished a Property through a Short Sale within three years from the date of case number assignment.

This three-year period begins on the date of transfer of title by Short Sale.

(i) Exception for Borrower Current at the Time of Short Sale

A Borrower is considered eligible for a new FHA-insured Loan if, from the date of case number assignment for the new Loan:

- all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- installment debt payments for the same time period were also made within the month due.

(ii) Exception for Extenuating Circumstances

The Lender may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(c) Required Documentation

If the credit report does not indicate the date of the Short Sale, the Lender must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

If the Short Sale was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(11) Credit Counseling/Payment Plan

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Loan, provided the Lender documents that:

- one year of the payout period has elapsed under the plan;
- the Borrower's payment performance has been satisfactory and all required payments have been made on time; and
- the Borrower has received written permission from the counseling agency to enter into the loan transaction.

(D) Evaluating Liabilities and Debt

(1) General Liabilities and Debt

(a) Standard

The Lender must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65), and required documentation.

All applicable monthly liabilities must be included in the qualifying ratio. Closed- end debts do not have to be included if they will be paid off within six months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the six-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Borrower provides written certification that they do not make payments, and are not expected by the account owner to make any payments.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

(b) Required Documentation

The Lender must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.

(2) Undisclosed Debt and Inquiries

(a) Standard

When a debt or obligation is revealed during the application process or the interview with the Borrower that was not listed on the loan application and/or credit report, the Lender must:

- verify the actual monthly payment amount;
- include the monthly payment amount in the Borrower's DTI;
- ensure that the Borrower did not incur the indebtedness in connection with the FHA-insured transaction; and
- determine that any unsecured funds borrowed will not be used for the Borrower's MCI.

The Lender must obtain a written explanation from the Borrower for all material inquiries shown on the credit report that were made in the last 90 Days.

Material Inquiries refer to inquires which may potentially result in obligations incurred by the Borrowers for other Mortgages, auto loans, leases, or other Installment Loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

(b) Required Documentation

The Lender must document all undisclosed debt and support for its analysis of the Borrower's debt.

(3) Federal Debt

(a) Definition

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

(b) Standard

The Lender must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total DTI.

(c) Required Documentation

The Lender must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

(4) Alimony, Child Support, and Other Maintenance

(a) Definition

Alimony, Child Support, and Other Maintenance are court-ordered or otherwise agreed upon payments.

(b) Standard

For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Lender's calculation of the Borrower's gross income, the Lender must verify and include the monthly obligation in its calculation of the Borrower's debt.

Child support and other maintenance are to be treated as a recurring liability and the Lender must include the monthly obligation in the Borrower's liabilities and debt.

(c) Required Documentation

The Lender must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

The Lender must also obtain the Borrower's pay stubs covering no less than 28 Days to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

(d) Calculation of Monthly Obligation

The Lender must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(5) Deferred Obligations

(a) Definition

Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(b) Standard

The Lender must include deferred obligations in the calculation of the Borrower's liabilities.

(c) Required Documentation

The Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Lender must obtain evidence of the actual monthly payment obligation, if available.

(d) Calculation of Monthly Obligation

The Lender must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, the Lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

(6) Student Loans

(a) Definition

Student Loan refers to liabilities incurred for educational purposes.

(b) Standard

The Lender must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(c) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(d) Calculation of Monthly Obligation [Text was deleted in this section.]

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or

- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

(7) Installment Loans

(a) Definition

Installment Loans (excluding Student Loans) refer to Loans, not secured by real estate, that require the periodic payment of Principal and Interest (P&I). A Loan secured by an interest in a timeshare must be considered an Installment Loan.

(b) Standard

The Lender must include the monthly payment shown on the credit report to calculate the Borrower's liabilities.

If the credit report does not include a monthly payment for the Installment Loan, the Lender must use the amount of the monthly payment shown in the loan agreement or payment statement to calculate the monthly payment to be included in the Borrower's debt.

(c) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the Installment Loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Lender must use the loan agreement or payment statement to document the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations section.

(8) Revolving Charge Accounts

(a) Definition

Revolving Charge Accounts refer to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(b) Standard

The Lender must verify and include payments on Revolving Charge Accounts in the Borrower's debts.

(c) Required Documentation

The Lender must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the Lender must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

(d) Calculation of Monthly Obligation

The Lender must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the Lender must use 5 percent of the outstanding balance shown on the current account statement.

(9) 30-Day Accounts

(a) Definition

30-Day Accounts refer to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

(b) Standard

The Lender must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's debt ratio. If the credit report reflects any late payments in the last 12 months, the Lender must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the debt ratio.

(c) Required Documentation

The Lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Lender must use the credit report to document the balance, and must document sufficient funds are available to pay off the balance after loan closing.

(10) Business Debt in Borrower's Name

(a) Definition

Business debt in the Borrower's name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

(b) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Lender can document that the debt is being paid by the Borrower's business.

(c) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Lender must obtain documentation that the debt is paid out of company funds, and the debt was considered in the cash-flow analysis of the Borrower's business.

(11) Non-derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report

(a) Definition

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance;
- disputed accounts with late payments aged 24 months or greater; or
- disputed accounts that are current and paid as agreed.

(b) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Lender must analyze the effect of the disputed accounts on the Borrower's ability to repay the Loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

(12) Contingent Liabilities

(a) Definition

A Contingent Liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another party defaults on the payment. Contingent liabilities may include Co-signer liabilities and liabilities resulting from a loan assumption without release of liability.

(b) Standard

The Lender must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Lender verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower, should the other party default, or the other party has made 12 months of timely payments.

(c) Required Documentation

(i) Loan Assumptions

The Lender must obtain the agreement creating the contingent liability or assumption agreement, and the deed showing transfer of title out of the Borrower's name.

(ii) Cosigned Liabilities

The Lender does not need to include cosigned liabilities if the other party to the debt has been making regular on-time payments during the previous 12 months.

(iii) Court-Ordered Divorce Decree

The Lender must obtain a copy of the divorce decree ordering the spouse to make payments.

(d) Calculation of Monthly Obligation

The Lender must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(13) Collection Accounts

(a) Definition

A Collection Account is a Borrower's Loan or debt that has been submitted to a collection agency through a creditor.

(b) Standard

If the credit reports used in the analysis show any outstanding collection accounts, the Lender must:

- verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds; or
- verify that the Borrower has made payment arrangements with the creditor and has successfully made at least one payment under that

arrangement. If the monthly payment is unknown, the Lender must use 5 percent of the outstanding balance.

Medical collections may be excluded from the payoff or payment requirement above if the Borrower meets the satisfactory credit history requirements for a traditional credit report, and combination references.

Accounts are designated as medical when clearly shown on the credit report as related to a medical service provider (e.g., Dr., MD, Hospital) or when the Borrower can provide documentation that the collection is related to a medical expense.

(c) Required Documentation

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

The Lender must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with the creditor, if not paid prior to or at settlement.

(14) Private Savings Clubs

(a) Definition

Private Savings Clubs refer to non-traditional methods of saving by making deposits into a member-managed resource pool.

(b) Standard

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' total debt.

(c) Required Documentation

The Lender must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

The Lender must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(15) Obligations Not Considered Debt

Obligations not considered debt include:

- medical collections;
- federal, state, and local taxes, if not delinquent and no payments required;
- automatic deductions from savings, when not associated with another type of obligation;
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts;
- a collateralized loan that secures cash, stock, or bond assets;
- utilities;
- child care;
- commuting costs;
- union dues;
- insurance, other than property insurance;
- open accounts with zero balances; and
- voluntary deductions, when not associated with another type of obligation.

ii. Income Requirements

(A) Definition of Effective Income

Effective Income refers to income that may be used to qualify a Borrower for a Loan.

(B) General Income Requirements

The Lender must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

The Lender may only consider income if it is legally derived *and,* when required, properly reported as income on the Borrower's Tax Returns.

Effective Income must be stable, have been received for the previous two years, be reasonably likely to continue through at least the first three years of the Loan, and meet the specific requirements described below.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

If FHA requires Tax Returns as required documentation for any type of Effective Income, the Lender must also analyze the Tax Returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

If the income documents are not received in English, the Lender must provide a complete and accurate translation for each document.

(C) Employment Related Income

(1) Definition

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

(2) Standard

The Lender may use employment related income as Effective Income in accordance with the standards provided for each type of employment related income.

(3) Required Documentation

For all employment related income, the Lender must verify the Borrower's most recent two years of employment and income, and document it using one of the following methods.

(a) Traditional Current Employment Documentation

The Lender must obtain the most recent pay stubs covering a minimum of 30 Days (if paid weekly or biweekly, pay stubs must cover a minimum of 28 Days) that show the Borrower's year-to-date earnings, *and* one of the following to verify current employment:

- a written Verification of Employment (VOE) covering two years;
- direct verification by a TPV vendor covering two years, subject to the following requirements:
  - the Borrower has authorized the Lender to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; or
- an electronic verification acceptable to FHA.

Reverification of employment must be completed within 10 Days prior to loan Disbursement. Verbal reverification of employment is acceptable.

(b) Alternative Current Employment Documentation

If using alternative documentation, the Lender must:

- obtain copies of the pay stub(s) covering the most recent 30-Day period (if paid weekly or biweekly, pay stubs must cover a minimum of 28 Days);

- obtain copies of the original IRS Form W-2 from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Reverification of employment must be completed within 10 Days prior to loan Disbursement. Verbal reverification of employment is acceptable.

(c) Past Employment Documentation

Direct verification of the Borrower's employment history for the previous two years is not required if *all* of the following conditions are met:

- the current employer confirms a two-year employment history, or a paystub reflects a hiring date;
- only base pay is used to qualify (no overtime or bonuses); and
- the Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Lender must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- IRS Form W-2(s);
- verbal or written VOE(s);
- electronic verification acceptable to FHA; or
- evidence supporting enrollment in school or the military during the most recent two full years.

(D) Primary Employment

(1) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

(2) Standard

The Lender may use primary income as Effective Income.

(3) Calculation of Effective Income

(a) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, the Lender must use the current salary to calculate Effective Income.

(b) Hourly

For employees who are paid hourly and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.

(E) Part-Time/Secondary Employment

(1) Definition

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

(2) Standard

The Lender may use part-time income as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

(3) Calculation of Effective Income

The Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use a 12-month average of hours at the current pay rate.

(F) Overtime, Bonus, or Tip Income

(1) Definition

Overtime, Bonus, or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(2) Standard

The Lender may use Overtime, Bonus, or Tip Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime, Bonus, or Tip Income less than two years may be considered Effective Income if the Lender documents that the Overtime, Bonus, or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(3) Calculation of Effective Income

For employees with Overtime, Bonus, and Tip Income, the Lender must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime, Bonus, or Tip Income from the current year decreases by 20 percent or more from the previous year, the Lender must use the current year's income.

(G) Seasonal Employment

(1) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(2) Standard

The Lender may consider Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Lender may consider unemployment income as Effective Income for those with effective seasonal employment income.

(3) Calculation of Effective Income

For employees with seasonal income, the Lender must average the income earned over the previous two full years to calculate Effective Income. For seasonal employees with unemployment income, the Lender must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

(H) Employer Housing Subsidy

(1) Definition

Employer Housing Subsidy refers to employer-provided loan assistance.

(2) Standard

The Loan may utilize the Employer Housing Subsidy as Effective Income.

(3) Required Documentation

The Lender must verify and document the existence and the amount of the housing subsidy.

(4) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, the Lender may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Loan Payment.

(I) Employed by Family-Owned Business

(1) Definition

Family-Owned Business Income refers to income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

(2) Standard

The Lender may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(3) Required Documentation

The Lender must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business Tax Returns or Schedule K-1 (IRS Form 1065), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the Lender must obtain copies of signed personal Tax Returns or tax transcripts.

(4) Calculation of Effective Income

(a) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Lender must use the current salary to calculate Effective Income.

(b) Hourly

For employees who are paid hourly and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.

(J) Commission Income

(1) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(2) Standard

The Lender may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

(3) Required Documentation

For Commission Income, the Lender must obtain signed Tax Returns, including all applicable schedules, for the last two years. In lieu of signed Tax Returns from the Borrower, the Lender may obtain a signed IRS Form 4506, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821 and tax transcripts directly from the IRS.

(4) Calculation of Effective Income

The Lender must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. The Lender must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

(K) Self-Employment Income

(1) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

(2) Standard

(a) Minimum Length of Self-Employment

The Lender may consider self-employed borrower income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Lender may *only* consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(b) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Lender must document that the business income is now stable.

A Lender may consider income as stable after a 20 percent reduction if the Lender can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies for the Loan utilizing the reduced income.

(3) Required Documentation

(a) Individual and Business Tax Returns

The Lender must obtain complete individual and business Tax Returns for the most recent two years, including all schedules.

In lieu of signed individual or business Tax Returns from the Borrower, the Lender may obtain a signed IRS Form 4506, IRS Form 4506-C, or IRS Form 8821 and tax transcripts directly from the IRS.

(b) Profit and Loss Statements and Balance Sheets

The Lender must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end Tax Return was filed by the Borrower.

A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two-year average of Tax Returns, an audited P&L or signed quarterly Tax Return must be obtained from the IRS.

(c) Business Credit Reports

The Lender must obtain a business credit report for all corporations and "S" corporations.

(4) Calculation of Effective Income

The Lender must analyze the Borrower's Tax Returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Appendix 2.0 – Analyzing IRS Forms.

The Lender must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

(L) Additional Required Analysis of Stability of Employment Income

(1) Frequent Changes in Employment

If the Borrower has frequently changed jobs more than three times in the prior 12-month period, or has changed lines of work, the Lender must take additional steps to verify and document the stability of the Borrower's Employment Income. The Lender must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(2) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Lender may consider the Borrower's current income as Effective Income if they can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- the Borrower has a two-year work history prior to the absence from employment using standard or alternative employment verification.

(3) Addressing Temporary Reduction in Income

(a) Standard

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Lender may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Loan, taking into account any reduction of income due to the circumstance.

For Borrowers returning to work before or at the time of the first Loan Payment due date, the Lender may use the Borrower's pre-leave income.

For Borrowers returning to work after the first Loan Payment due date, the Lender may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement, up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

(b) Required Documentation

The Lender must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through the intended date of return to work with the current employer.

(M) Other Sources of Effective Income

(1) Disability Benefits

(a) Definition

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

(b) Required Documentation

The Lender must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Lender must obtain:

- a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the Borrower's eligibility for disability benefits; or
- equivalent documentation that establishes the award of benefits to the Borrower.

If any disability income is due to expire within three years from the date of loan application, the Lender should treat that income as a temporary reduction in income.

If the Notice of Award or equivalent document does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue. The Lender may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the Lender inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(i) Social Security Disability

For Social Security disability income, including Supplemental Security Income (SSI), the Lender must obtain one of the following documents:

- Tax Returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

(ii) Department of Veterans Affairs Disability

For VA disability benefits, the Lender must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue for at least three years.

(iii) Private Disability

For private disability benefits, the Lender must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.

(c) Calculation of Effective Income

The Lender must use the most recent amount of benefits received to calculate Effective Income.

(2) Alimony, Child Support, and/or Maintenance Income

(a) Definition

Alimony, Child Support, and/or Maintenance Income refers to income received from a former spouse or partner or from a noncustodial parent of the Borrower's minor dependent.

(b) Required Documentation

The Lender must obtain a copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the Lender must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The Lender must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or Tax Returns.

The Lender must provide evidence that the claimed income will continue for at least three years. Use the front and pertinent pages of the divorce decree/ settlement agreement and/or court order showing the financial details.

(c) Calculation of Effective Income

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support, and/or Maintenance Income for the most recent three months, the Lender may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support, and/or Maintenance Income for the most recent six months, the Lender may use the current payment to calculate Effective Income. If Alimony, Child Support, and/or Maintenance Income has been received for less than two years, the Lender must use the average over the time of receipt.

If the alimony, child support, or other maintenance payments have not been consistently received for the most recent six months, the Lender must use the average of the income received over the previous two years to calculate Effective Income.

(3) Military Income

(a) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The Lender may not use education benefits as Effective Income.

(b) Required Documentation

The Lender must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Loan, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(c) Calculation of Effective Income

The Lender must use the current amount of Military Income received to calculate Effective Income.

(4) Loan Credit Certificates

(a) Definition

Loan Credit Certificates refer to government loan payment subsidies other than Section 8 Housing Choice Vouchers.

(b) Required Documentation

The Lender must verify and document that the Governmental Entity subsidizes the Borrower's Loan Payments either through direct payments or tax rebates.

(c) Calculating Effective Income

Loan Credit Certificate income that is not used to directly offset the Loan Payment before calculating the qualifying ratios may be included as Effective Income. The Lender must use the current subsidy rate to calculate the Effective Income.

(5) Section 8 Housing Choice Vouchers

(a) Definition

Section 8 Housing Choice Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

(b) Required Documentation

The Lender must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Lender may consider that this income is reasonably likely to continue for three years.

(c) Calculation of Effective Income

The Lender may only use Section 8 Housing Choice Voucher subsidies as Effective Income if it is not used as an offset to the monthly Loan Payment. The Lender must use the current subsidy rate to calculate the Effective Income.

(6) Other Public Assistance

(a) Definition

Public Assistance refers to income received from government assistance programs.

(b) Required Documentation

Lenders must verify and document the income received from the government agency and that the income is reasonably likely to continue for three years.

Calculation of Effective Income

The Lender must use the current rate of Public Assistance received to calculate Effective Income.

(7) Automobile Allowance

(a) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(b) Required Documentation

The Lender must verify and document the Automobile Allowance received from the employer for the previous two years.

The Lender must also obtain IRS Form 2106, *Employee Business Expenses*, for the previous two years.

(c) Calculation of Effective Income

The Lender must determine the portion of the allowance that can be considered Effective Income.

The Lender must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.

If the Borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:

- the Borrower's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

Automobile Allowance refers to the amount of the Automobile Allowance that exceeds the Borrower's actual automobile expenditures.

(8) Retirement Income

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(a) Social Security Income

(i) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(ii) Required Documentation

The Lender must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three-year period from the date of case number assignment.

For SSI, the Lender must obtain any one of the following documents:

- Tax Returns (minimum one year);
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S.

In addition to verification of income, the Lender must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) an equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the Lender must consider the income effective and reasonably likely to continue. The Lender should not request additional documentation from the Borrower to demonstrate continuance of SSA income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(iii) Calculation of Effective Income

The Lender must use the current amount of Social Security Income received to calculate Effective Income.

(b) Pension

(i) Definition

Pension refers to income received from the Borrower's former employer(s).

(ii) Required Documentation

The Lender must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

The Lender must obtain any one of the following documents:

- Tax Returns (minimum one year);
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's pension/retirement letter from the former employer.

(iii) Calculation of Effective Income

The Lender must use the current amount of Pension income received to calculate Effective Income.

(c) Individual Retirement Account and 401(k)

(i) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(ii) Required Documentation

The Lender must verify and document the Borrower's receipt of recurring IRA/401(k) Income and that it is reasonably likely to continue for three years.

The Lender must obtain the most recent IRA/401(k) statement and any one of the following documents:

- Tax Returns; or
- the most recent bank statement evidencing receipt of income.

(iii) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Lender must use the current amount of IRA

Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Lender must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Lender must use the average over the time of receipt.

(9) Rental Income

(a) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(b) Rental Income from Other Real Estate Holdings

(i) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence.

(ii) Required Documentation

The Lender must obtain the Borrower's last two years' Tax Returns with Schedule E.

(iii) Calculation of Effective Net Rental Income

The Lender must calculate the net Rental Income by averaging the amount shown on Schedule E, provided the Borrower continues to own all Properties included on Schedule E.

Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, the Lender must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two years of Rental Income history, the Lender must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

(c) Boarders of the Subject Property

(i) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(ii) Standard

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the Tax Return and the Borrower is currently receiving boarder income.

(iii) Required Documentation

The Lender must obtain two years of the Borrower's Tax Returns evidencing income from Boarders and the current lease.

For purchase transactions, the Lender must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(iv) Calculation of Effective Income

The Lender must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(10) Investment Income

(a) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(b) Required Documentation

The Lender must verify and document the Borrower's Investment Income by obtaining Tax Returns for the previous two years and the most recent account statement.

(c) Calculation of Effective Income

The Lender must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The Lender must subtract any of the assets used for the MCI to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

(11) Expected Income

(a) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of loan closing.

(b) Required Documentation

The Lender must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of loan closing. For expected Retirement Income, the Lender must verify the amount and that it is guaranteed to begin within 60 Days of the loan closing.

(c) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. The Lender must also verify that the Borrower will have sufficient income or Cash Reserves to support the Loan Payment and any other obligations between loan closing and the beginning of the receipt of the income.

(12) Trust Accounts

(a) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(b) Required Documentation

The Lender must verify and document the existence of the Trust Agreement or other trustee statement. The Lender must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The Lender must verify that regular payments will continue for at least the first three years of the loan term.

(c) Calculation of Effective Income

The Lender must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(13) Annuities or Similar

(a) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(b) Required Documentation

The Lender must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Loan. The Lender must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

(c) Calculation of Effective Income

The Lender must use the current rate of the annuity to calculate Effective Income.

The Lender must subtract any of the assets used for the MCI to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.

(14) Notes Receivable Income

(a) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or other similar credit instrument.

(b) Required Documentation

The Lender must verify and document the existence of the Note. The Lender must also verify and document that payments have been consistently received for the previous 12 months by obtaining Tax Returns, deposit slips or canceled checks and that such payments are guaranteed to continue for the first three years of the Loan.

(c) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Lender must use the current rate of income to

calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Lender must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(15) Nontaxable Income (Grossing Up)

(a) Definition

Nontaxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and public assistance payments;
- child support;
- Section 8 Housing Choice Vouchers
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(b) Required Documentation

The Lender must document and support the amount of income to be Grossed Up for any Nontaxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(c) Calculation of Effective Income

The amount of continuing tax savings attributed to Nontaxable Income may be added to the Borrower's gross income.

The percentage of Nontaxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a Tax Return for the previous tax reporting period, the Lender may Gross Up the Nontaxable Income by 15 percent.

The Lender may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

iii. Asset Requirements

(A) General Asset Requirements

The Lender must verify that the Borrower has sufficient funds to cover the required downpayment and other costs to be paid in cash at closing. The Lender may only

consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items, and other fees may not be applied toward the Borrower's minimum downpayment requirement.

(B) Earnest Money Deposit

The Lender must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct electronic verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

(C) Cash to Close and Reserves

The Lender must document all funds that are used for the purpose of qualifying for or closing the Loan, including those to satisfy debt or pay costs outside of closing.

(1) Cash to Close

The Lender must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(a) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Loan is the difference between the total cost to acquire the Property and the Total Loan Amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Loan is the difference between the total payoff requirements of the Loan being refinanced and the Total Loan Amount.

(b) Lender Responsibility for Estimating Settlement Requirements

In addition to the minimum downpayment, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at loan settlement.

Refer to Fees and Charges below for details on which fees are allowed to be financed and which fees must be collected in cash from the Borrower.

(2) Fees and Charges

The Lender or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Loan, in compliance with permissible fees and charges described in this section. Fees and charges must not exceed the actual costs.

In addition to the minimum downpayment, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at loan settlement. Fees and charges may be levied to the Borrower in amounts that are reasonable and customary for the area, and where permissible as described below.

(a) Financeable Fees and Charges

(i) General

The fees and charges listed below incurred in connection with a Manufactured Home Loan may be included in the loan amount:

- origination fees (payable to the Lender or sponsored TPO), not to exceed the greater of 2 percent of the Base Loan Amount or $2000, before adding the UFIP. The origination fee includes other Lender costs of doing business. Related expenses are not permitted in addition to the origination fee, such as document preparation, copying, processing, underwriting, and courier fees;
- state and local sales taxes;
- premiums paid for hazard insurance for the first year of the loan term, including premiums for Flood Insurance where applicable;
- credit report costs;
- a fee for the services of a qualified third-party closing agent to act on behalf of a Lender in closing a Direct Loan transaction;
- appraisal fees in connection with the purchase or refinancing of an Existing Manufactured Home;
- fees for determining whether the Property is in an SFHA;
- recording fees, recording taxes, filing fees, and documentary stamp taxes;

- a fee for inspection of the Property by the Lender or its agent, not to exceed a maximum set by HUD; and
- such other items as may be specified by HUD.

Their inclusion must not increase the total principal loan balance beyond the Nationwide Loan Limits permitted.

The Dealer may advance the funds for the fees and charges and be reimbursed by the Lender from the loan proceeds. Alternatively, a Lender may pay these fees and charges and deduct them from the loan proceeds paid to the Dealer. In either case, there must be full disclosure to the Borrower.

(ii) Upfront Insurance Premium

Any portion of this UFIP may be financed into the Loan provided that the final loan amount does not exceed the Nationwide Loan Limits. For Loans originated by a Dealer, the Upfront Insurance Premium Rider must be included in the case binder.

Any UFIP amounts paid in cash are added to the total cash settlement requirements.

(b) Allowable Fees and Charges That May Not be Financed

The following fees and charges incurred by a Lender in connection with a Manufactured Home Loan may be collected from a Borrower, but may not be included in the loan amount or otherwise financed or advanced by a Dealer, a manufacturer, or any other party to the loan transaction:

- Discount Points to be paid by the Borrower to the Lender, in compliance with Fees and Charges that May be Collected, but May Not be Financed;
- a fee for the services of a qualified Closing Agent to act on behalf of the Lender in closing a Direct Loan transaction. The fee for a Closing Agent includes, and is not in addition to, the document signing fee;
- premiums for credit life insurance or credit disability insurance;
- payments into an insurance escrow account;
- other fees necessary to establish the validity of a lien. This fee category includes preparation of the lien instrument by a third party that is unaffiliated with the Lender. Preparation of the lien instrument by the Lender or its Affiliate is represented by the allowed origination fee;
- title insurance costs (applicable only for lot/real estate);
- survey costs (applicable only for lot/real estate);

- payments into a tax escrow account for the current year (applicable only for lot/real estate); and
- such other items as may be specified by HUD.

(c) Fee for Third-Party Originator

The Lender may pay a reasonable fee to the sponsored TPO, but the fee must not be charged to the Borrower.

(3) Seller Payments

When described in a standard real estate contract for a Manufactured Home Lot or Combination Loan, the seller may pay costs that are normally paid by a real estate seller, such as preparing and recording the deed that transfers title to the buyer.

(4) Other Costs

In addition to the minimum downpayment, the following are additional borrower expenses that must not be financed, and must be included in the total amount of cash that the Borrower must provide at loan settlement.

(a) Prepaid Items (Including Per Diem Interest)

Prepaid items may include annual insurance premiums, property taxes, and per diem interest.

(b) Ineligible Contract Options and Accessories

Items listed in the sales contract that may not be financed into the Loan must be included in the total cash requirements for the Loan. These items include furniture and small appliances.

(c) Repairs and Improvements

The cost of repairs and improvements may not be financed into the Loan.

(d) Premium Pricing on FHA-Insured Loans

Premium Pricing refers to a credit from a Lender for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the interested party limitation.

The funds derived from a premium priced Loan:

- must be disclosed as required, and in accordance with RESPA where applicable;

- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Loan Payments, or Judgments.

(e) Referral Fees

Neither the Lender nor the Borrower may pay a referral fee to any Dealer, home manufacturer, contractor, supplier, real estate broker, loan broker, or any other party in connection with the origination of a Loan insured under Title I.

(f) Third Party Origination Fees

Lenders may negotiate payment with third parties for their origination of Title I Loans. Lenders engaged with sponsored TPOs must comply with the Sponsor/Sponsored Third-Party Originator Relationship requirements.

(g) Interested Party Contributions on the Settlement Statement

The Lender may apply interested party credits to the closing costs and prepaid items, including any items Paid Outside Closing (POC).

The refund of the Borrower's POC may be used toward the Borrower's downpayment, if the Lender documents that the POC was paid with the Borrower's own funds.

The Lender must identify the total interested party credits on the Settlement Statement or similar legal document or in an addendum. The Lender must identify each item paid by Interested Party Contributions.

(5) Minimum Verified and Documented Cash Reserves

(a) Definition

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

(b) Standard

Borrowers must have a minimum of two months of Cash Reserves following loan settlement from their own funds when the Borrower's credit does not meet Sufficiency of Non-traditional Credit References.

(6) Sources of Funds

The Lender must verify liquid assets for cash to close and Reserves as indicated.

(a) Checking and Savings Accounts

(i) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(ii) Standard

The Lender must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the loan amount, the Lender must obtain documentation of the deposits. The Lender must also verify that no debts were incurred to obtain part, or all, of the downpayment.

(iii) Required Documentation

Documentation must show that at least one Borrower is an owner of the account.

Traditional Documentation

The Lender must obtain a written VOD and the Borrower's most recent statement for each account.

Alternative Documentation

If a VOD is not obtained, a statement provided by the financial institution showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Lender must obtain statement(s) for the most recent two months.

(b) Cash on Hand

(i) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(ii) Standard

The Lender must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the Lender or retailer.

(iii) Required Documentation

The Lender must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Lender must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

(c) Retirement Accounts

(i) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(ii) Standard

The Lender may include up to 60 percent of the value of assets, less any existing Loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plans, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

(iii) Required Documentation

The Lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(d) Stocks and Bonds

(i) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(ii) Standard

The Lender must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the Lender must determine the current value of the stocks and bonds through third-party verification. Government-issued savings bonds are valued at the original purchase price, unless the Lender verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(iii) Required Documentation

The Lender must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account the Lender must obtain a copy of each stock or bond certificate.

(e) Private Savings Clubs

(i) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(ii) Standard

The Lender may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The Lender must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Lender must also determine that the received funds were reasonably accumulated, and not borrowed.

(iii) Required Documentation

The Lender must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(f) Gifts (Personal and Equity)

(i) Definition

Gifts refer to contributions of cash or equity with no expectation of repayment.

(ii) Standards for Gifts

Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization; or
- a governmental agency or public entity that has a program providing homeownership assistance to:
  - low- or moderate-income families; or
  - first-time homebuyers.

Any Gift of the Borrower's downpayment must also comply with the additional requirements set forth in Sources of Funds for the Borrower's downpayment.

The gift donor may not be a person or entity with an interest in the sale of the Property, such as the seller, Dealer, manufacturer, real estate broker, or any person or any other affiliated entity. Gifts from these sources are not permitted on Title I Manufactured Home Loans.

Reserves

Gift funds in excess of funds needed to close may not be considered as Cash Reserves.

Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

Required Documentation

The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;

- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Lender must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below:

- For Gifts that will be verified prior to settlement, the Lender must obtain one of the following:
  - the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account;
  - a copy of the donor's canceled check and evidence of deposit into the Borrower's account;
  - a copy of the donor's withdrawal receipt and evidence of deposit into the Borrower's account; or
  - evidence of the electronic transfer of funds from the donor's account to the Borrower's account.
- For Gifts that will be verified at settlement, the Lender must obtain one of the following evidencing payment to the settlement agent:
  - evidence of electronic transfer of funds from the donor's account;
  - bank certified check;
  - cashier's check; or
  - other official bank check.

Who May Provide Gifts of Land

Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.

For Gifts of land, the Lender must obtain:

- proof of ownership by the donor; and
- evidence of the transfer of title to the Borrower.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Lender must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

***(iii)*Standards for Gifts of Equity**

Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.

Required Documentation

The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

(g) Interested Party Contributions

(i) Definitions

Interested Parties refer to sellers, real estate agents, builders, developers, lenders, Third-Party Originators (TPO), or other parties with an interest in the transaction.

(ii) Standard

Interested Parties are not permitted to contribute toward the Borrower's origination fees, other closing costs and Discount Points. Interested Parties are also not permitted to contribute toward:

- payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of loan interest for fixed rate Loans;
- Loan Payment protection insurance; and
- payment of the UFMIP.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution.

(h) Inducements to Purchase

(i) Definition

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the Property before applying the appropriate LTV percentage.

These inducements include, but are not limited to:

- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;

- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(ii) Personal Property

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting

(iii) Sales Commission

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a Real Estate Commission on the Sale of their present residence, the same real estate broker or agent is involved in both transactions, and the seller is paying a Real Estate Commission on the Sale of the Property being purchased by the Borrower that exceeds what is typical for the area.

(iv) Rent Below Fair Market

Rent may be an inducement to purchase when the sales agreement reveals that the Borrower has been living in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below fair market rent.

When such an inducement exists, the amount of inducement is the difference between the rent charged and the fair market rent pro-rated over the period between execution of the sales contract and execution of the Title I Loan.

Rent below FMV is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(i) Downpayment Assistance Programs

FHA does not "approve" downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does not allow nonprofit entities to provide Gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

The Lender must ensure that a Gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

(i) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a Gift that is to be used for all, or part, of a Borrower's downpayment, and the organization providing the Gift loses or gives up its federal tax-exempt status, FHA will recognize the Gift as an acceptable source of the downpayment, provided that:

- the Gift is made to the Borrower;
- the Gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(ii) Lender Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization

The Lender is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the IRS Exempt Organization Select Check, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(j) Secondary Financing

Secondary Financing is any financing other than the first Loan that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a Gift or a grant even if it does not require regular payments or has other features forgiving the debt.

Secondary Financing is not permitted under the Manufactured Home Loan program.

(k) Loans

Loan means a Disbursement of proceeds (funds) or an advance of credit to or for the benefit of a Borrower who promises to repay the principal amount of such Disbursement or advance, plus interest, if any, at a stated annual rate over time, with the Borrower's obligation evidenced by the Borrower's execution of a Note.

Loan also means a purchase by a Lender of a Note evidencing such obligation, or a refinancing of an existing obligation with or without an additional Disbursement of proceeds or advance of credit.

(i) Collateralized Loans

Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

Standard

The minimum investment and funds to close may be derived from a collateralized loan, provided that the funds are secured by other property that the applicant owns. The security must not be against the home being purchased.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Lender must reduce the amount of the corresponding asset by the amount of the collateralized loan.

Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, Lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MCI must also comply with the additional requirements set forth in Sources of Funds for the Borrower's downpayment.

Required Documentation

The Lender must verify and document the existence of the Borrower's assets used to collateralize the Loan, the promissory Note securing the asset, and the loan proceeds.

***(ii)* Retirement Account Loans**

Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

Standard

The Lender must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

Required Documentation

The Lender must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

***(iii)*Disaster Relief Loans**

Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to

the FHA-insured Loan, and meet the requirements for Secondary Financing.

Any loan of the Borrower's MCI must also comply with the additional requirements set forth in Sources of Funds for the Borrower's MCI.

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

Required Documentation

The Lender must verify and document the promissory Note.

(l) Grants

(i) Disaster Relief Grants

Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's downpayment.

Required Documentation

The Lender must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MCI must also comply with the additional requirements set forth in Sources of Funds for the Borrower's downpayment.

(ii) Federal Home Loan Bank Homeownership Set-Aside Grant Program

Standard

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of downpayment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a Gift or grant even if it does not require regular payments or has other features forgiving the debt.

Any AHP Set-Aside funds used for the Borrower's MCI must also comply with the additional requirements set forth in Sources of Funds for the Borrower's MCI.

Required Documentation

The Lender must verify and document the Borrower's receipt of the grant and terms of use.

The Lender must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(m) Employer Assistance

(i) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, prepaid items, insurance premiums, or any portion of the minimum cash investment.

Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(ii) Standard

Relocation Guaranteed Purchase

The Lender may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(iii) Required Documentation

Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, the Lender must obtain an executed buyout agreement signed by all parties, and a receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding loan debt.

The Lender must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

Employer Assistance Plans

The Lender must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Lender must verify and document that the Borrower has sufficient cash for closing.

(n) Sale of Personal Property

(i) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles.

(ii) Standard

The Lender must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(iii) Required Documentation

Borrowers may sell Personal Property to obtain cash for closing.

The Lender must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the loan transaction.

(o) Trade-In of Manufactured Home

(i) Definition

Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of one Manufactured Home that is not considered real estate to a Dealer or an independent third party.

(ii) Standard

The net proceeds from the Trade-In of a Manufactured Home may be used as the Borrower's source of funds for the purchase of another Manufactured Home.

Trade-ins cannot result in cash back to the Borrower from the Dealer or independent third party.

(iii) Required Documentation

The Lender must verify and document the sales contract or other agreement evidencing a transaction and the value of the trade-in or sale. The Lender must obtain documentation to support the Trade Equity.

(p) Sale of Real Property

(i) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(ii) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(iii) Required Documentation

The Lender must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Settlement Statement or similar legal document.

The Lender must also verify and document that it was an Arm's Length Transaction, and that the Borrower is entitled to the Net Sale Proceeds.

(q) Real Estate Commission from Sale of a Subject Property

(i) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's portion of a real estate commission earned from the sale of the Property being purchased.

(ii) Standard

Lenders may consider Real Estate Commissions from the Sale of the Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

(iii) Required Documentation

The Lender must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Property being purchased.

(r) Rent Credits

(i) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(ii) Standard

The Lender may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent toward the MCI.

(iii) Required Documentation

The Lender must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

iv. Final Underwriting Decision

The Lender is ultimately responsible for making an underwriting decision on behalf of their Lender in compliance with HUD requirements. The Lender must complete the interview with the Borrower before making a final underwriting decision on the Loan.

(A) Duty of Care/Due Diligence

The underwriter must exercise the same level of care that would be used in underwriting a Loan entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured Loan.

(B) Specific Underwriter Responsibilities

The underwriter must review each Loan as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Loan Payments, in order to make an underwriting decision on behalf of their Direct Endorsement (DE) Lender in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the loan obligation according to the terms of the Loan.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Loan, and the overall acceptability of the Loan for FHA insurance;
- identify any inconsistencies in information obtained by the Lender in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Loan; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and the resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

(C) Underwriting of Credit and Debt

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report. See Credit Requirements above.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the loan transaction or the purchase of the Property.

(D) Underwriting of Income

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation. See Income Requirements above.

(E) Underwriting of Assets

The underwriter must review the assets of a Borrower required to close the Loan and verify that they have been supported with the proper documentation. See Asset Requirements above.

(F) Verifying Insurance Premium and Loan Amount

The underwriter must review the insurance premium and loan amount and verify that they have been supported with the proper documentation. See Underwriting the Borrower.

(G) Calculating Qualifying Ratios

For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Housing Payment to Effective Income Ratio and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the Approvable Qualifying Ratios chart.

The Lender must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.

(H) Calculating Maximum Monthly Housing Expenses

The total Loan Payment includes:

- P&I;
- real estate taxes;
- hazard insurance;
- Flood Insurance, as applicable;
- insurance premium;
- Homeowners' Association (HOA) Fees or manufactured home community or park association fees or expenses;
- lot rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

(I) Estimating Real Estate Taxes

The Lender must use accurate estimates of monthly tax escrows (as applicable) when calculating the total Loan Payment.

Tax estimates must be based on lots that will be owned by the Borrower.

(J) Temporary Interest Rate Buydowns

Temporary interest rate buydowns are not permitted.

Interest rate buydowns must be permanent for the duration of the loan term.

(K) Calculating Total Fixed Payment

The total fixed payment includes:

- the total Loan Payment; and
- monthly obligations on all debts and liabilities.

The maximum Total Housing Payment to Effective Income Ratio and Total Fixed Payments to Effective Income (DTI) ratios applicable to manually underwritten Loans are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Loan. Non-occupant co-Borrower income may not be included.

Approvable Qualifying Ratios		
Credit Sufficiency Requirements	**Maximum Qualifying Ratios (%)**	**Acceptable Compensating Factors**
Credit Sufficiency Requirements Not Met	31/43	Borrowers that do not meet credit sufficiency requirements: • must not exceed 31/43 ratios; and • must have documented verification of two months Cash Reserves. Exception: Loan financing an Energy Efficient Home (EEH): • may have stretch ratios of 33/45; and • must have documented verification of two months Cash Reserves. Other compensating factors are permitted in addition to these requirements.
Requirements for Sufficient Credit is Met	31/43	No compensating factors are required.
Requirements for Sufficient Credit is Met	33/45	At least one compensating factor is required.

(L) Required Documentation for Acceptable Compensating Factors

If a DTI ratio exceeds HUD's maximum allowable amount by 2 percent or less, a compensating factor may be considered when determining eligibility.

The following describes the compensating factors and required documentation that may be used to justify approval of Loans with the credit sufficiency and qualifying ratios described above.

(1) Energy Efficient Homes

(a) Definition

A Manufactured Home is classified as an EEH when certified as ENERGY STAR to the Quality Assurance Provider and an ENERGY STAR label is affixed inside the home, commonly near the HUD Data Plate or inside the electric panel cover of the home.

(b) Standard

When the Loan finances a Manufactured Home that is ENERGY STAR qualified, the Borrower's qualifying ratios may be "stretched" two percentage points higher than the standard limits. The qualifying ratio limit for a Manufactured Home that complies with EEH standards is 33 percent for the housing-to-income ratio and 45 percent for the Debt-to-Income ratio.

(c) Required Documentation

The case binder must contain evidence that the home was manufactured to ENERGY STAR standards, such as:

- For new homes, the Manufacturer's Invoice must indicate that the unit is ENERGY STAR qualified.
- For existing homes, the case binder must contain a photo of the ENERGY STAR label.

(2) Verified and Documented Cash Reserves

Verified and documented Cash Reserves may be cited as a compensating factor when the Reserves are equal to or exceed three total monthly Loan Payments.

Reserves are calculated as the Borrower's total assets less:

- the total funds required to close the Loan;
- Gifts; and
- borrowed funds.

(3) Equivalent or Reduced Housing Payment

If the proposed monthly Loan Payment is less than or equal to the current total monthly housing payment for the previous 12 months, then that may be used as a compensating factor.

The file must document a 12 month housing payment history with no late payments.

The Current Total Monthly Housing Payment refers to the Borrower's current total Loan Payment or current total monthly rent obligation.

(4) Significant Additional Income Not Reflected in Effective Income

Additional income or benefits not included in effective gross income that directly impacts the applicant's ability to meet financial obligations include:

- bonuses, part-time or Seasonal Employment that is not reflected in Effective Income;
- employee benefits (company car, clothing allowance); and
- public benefits (nutritional assistance/food stamps/seasonal unemployment).

The following can also be cited as a compensating factor subject to the following requirements:

- the Lender must verify and document that the Borrower has received this income, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 35/47.

(5) Potential for Increased Future Earnings

A Borrower that has potential for increased future earnings may be cited as a compensating factor with documented justification, such as job training or education in the applicant's profession.

(6) Secondary Wage Earner Potential (Employment Relocation)

Potential income for a secondary wage earner may be cited as a compensating factor under the following condition: the secondary wage earner has relocated with a primary wage earner, who is purchasing a home as a result of a recent employment relocation.

The case binder must document all of the following:

- evidence that the primary wage earner relocated for a new job;
- at least a 12 month work history for the secondary wage earner, prior to relocation; and
- the prospects of available employment.

(7) Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found in the Table of Residual Incomes By Region in the

Department of Veterans Affairs (VA) Lenders Handbook - VA Pamphlet 26-7, Chapter 4.9 b and e.

(a) Calculating Residual Income

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- proposed total Loan Payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Nontaxable Income.

If available, Lenders must use Tax Returns and where applicable, state tax returns, from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Lenders may rely upon current pay stubs.

For estimated maintenance and utilities, Lenders must multiply the Gross Living Area (GLA) of the Property by the maintenance and utility factor found in the Lenders Handbook - VA Pamphlet 26-7.

(b) Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, the Lender must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."

(c) Exception

The Lender may omit any individuals from "family size" who are fully supported by a source of verified income that is not included in the Effective Income in the loan analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table provided in Lenders Handbook - VA Pamphlet 26-7, select the applicable loan amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

v. Borrower Approval or Denial

(A) Re-underwriting

Before closing a Title I Manufactured Home Loan, the Lender must re-underwrite a Loan when any data element of the Loan changes and/or new Borrower information becomes available.

(B) Required Documentation of Final Underwriting Review Decision

The underwriter must provide an underwriting worksheet to document their final underwriting decision.

(C) HUD Employee Loans

If the Loan involves a HUD employee, the Lender must condition the Loan on the approval of the Loan by HUD. The Lender must submit the underwritten loan application package to the Director of the FOC for final underwriting approval.

(D) Responsibilities upon Denial

When a Loan is denied, the Lender must comply with all requirements of the FCRA, and the ECOA, as implemented by Regulation B (12 CFR Part 1002).

If the Loan has been reported in FHAC, Lenders must cancel any assigned case numbers that will not be closed as an FHA Loan.

e. Pre-Closing Reviews by HUD (05/08/2025)

i. Standard

All Loans are subject to a pre-closing review period in accordance with the Direct Endorsement Authority for Manufactured Home Loan process. HUD will examine each Loan prior to closing to ensure that the Lender is consistently submitting Loans that satisfactorily meet Title I program requirements. Once a Lender has completed the initial pre-closing review period, which includes the submission of a minimum of 10 Loans that are approved to close, HUD may approve the Lender for the Title I Direct Endorsement Program that will allow the Lender to underwrite and close Title I Manufactured Home Loans without prior review by HUD.

Lenders that are approved for the Direct Endorsement process are not required to submit loan origination documents for pre-closing.

ii. Pre-Closing Case Binder Submission

The Lender must first underwrite the Loan, then include the following documents in the case binder and submit to the FOC before closing the Loan.

Left Side
Sales contract(s) or sales agreement(s) for unit and/or lot
Appraisal – not applicable for newly constructed Manufactured Homes; applicable to: • purchase of an existing home; or • refinance of a non FHA-insured Loan.
Invoices: • Manufacturer's Invoice; and • skirting, air conditioning, other appurtenances, etc.
Itemized statement of costs, fees and charges
Evidence of lot ownership or Leasehold for individual lot
Certification of home site suitability
Form HUD-55014, *Warranty for New Manufactured Home*
Verification(s) of identity and SSNs
Documentation of CAIVRS and LDP/ General Services Administration's (GSA) SAM clearance
Truth-in-Lending Disclosure

Right Side
Underwriter's report/worksheet showing calculations for maximum loan amount, LTV and debt-to-income ratios, and listing any compensating factors
Uniform Residential Loan Application (URLA) and form HUD-92900-TI
Explanation and supporting documentation for adverse credit information and/or inquiries
Verification of rent payment history
Verification(s) of payment history for other accounts not on credit report, if any
Verification(s) of employment, income, and gaps (including explanations)
Verification of assets, including: • downpayment (deposit); • other assets, if needed to complete the transaction or for compensating factor; or • concurrent financing, if any.
Source of funds for downpayment and other assets
Appraisal for Trade-In of Manufactured Home (if any for source of funds)
Loan processing file notes, if any

iii. Lender Options for Notice of Return Issued Pre-Closing

In the event of a Notice of Return (NOR) on a pre-closing case binder review, Lenders may exercise any of the following options:

- take corrective actions (e.g., submit additional or revised documentation) to resolve reasons for the NOR determination; and/or
- close the Loan without FHA insurance; or
- cancel/reject the Loan.

iv. Loan Approved

Once a DE-approved Lender has approved a Loan, the Lender may then close the Loan and proceed with the insurance application process. Lenders that do not have DE approval must underwrite the case binder and submit to HUD for final approval prior to closing the Loan.

f. Closing (05/08/2025)

Before disbursing the proceeds of a Manufactured Home Loan, the Lender must confirm that the case binder is complete and that the following documents, if applicable to the Loan, have been obtained for retention in the case binder.

i. Lender Closing Requirements

The case binder must contain all documentation that has been relied upon in support of the Lender's decision to approve the Loan.

ii. Title Insurance

At its option, the Lender may obtain title insurance for Property treated as real estate.

iii. Closing in the Lender's Name

A Loan may close in the name of the Lender or the sponsoring Lender, the principal or the authorized agent. TPOs that are not FHA-approved Lenders may not close in their own names or perform any functions in FHA Connection (FHAC).

iv. Required Forms

The Lender must use forms and/or language in compliance with federal and state laws. HUD does not provide forms for Title I Notes or security instruments.

v. Certifications

The individual selling the Manufactured Home must sign the certification on form HUD-92900-TI.

The Borrower and the Dealer must sign the certification on form HUD-56002-MH.

vi. Monthly Escrow Obligations

The Lender may collect a monthly amount from the Borrower that will enable them to pay their escrow obligations, as permitted by law. Payments into an escrow account may be collected only for the current year. The escrow account may be used to meet the following obligations when they become due:

- hazard insurance premiums;
- real estate taxes;

- loan insurance premiums;
- flood insurance premiums if applicable;
- Ground Rents if applicable;
- any item that would create liens on the Property positioned ahead of the FHA-insured Loan; and
- any other assessments as permitted by local law.

vii. Eligible Fees and Charges

The Lender must ensure that all fees charged to the Borrower comply with all applicable federal, state, and local laws and disclosure requirements.

Funds for closing costs may not be applied toward the minimum downpayment requirement.

The Dealer may advance the funds for the fees and charges and be reimbursed by the Lender from the loan proceeds. Alternatively, a Lender may pay these fees and charges and deduct them from the loan proceeds paid to the Dealer. In either case, there must be full disclosure to the Borrower.

The Lender may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.

The origination fee may be paid to the Lender or a sponsored TPO.

Referral fees or similar charges are not allowed to be paid or collected by any party involved in the transaction, to include the manufacturer, Dealer, contractor, supplier, real estate broker, loan broker or any other party involved in the transaction.

A Lender may not allow the Dealer, or any party, other than the Borrower, to pay any Discount Points or other financing charges in connection with the loan transaction.

viii. Fees and Charges that May be Collected and Financed

(A) Standard

The fees and charges listed below that are incurred in connection with a Manufactured Home Loan may be included in the loan amount. Their inclusion must not increase the total principal loan balance beyond the maximum loan limit permitted.

The fees and charges that may be collected are limited to the following and amounts where indicated:

- UFIP;
- origination fees, not to exceed 2 percent of the Base Loan Amount, before adding UFIP;

- a fee for the services of a qualified third-party closing agent to act on behalf of a Lender in closing a Direct Loan transaction;
- state and local sales taxes paid by the Borrower;
- premiums paid by the Borrower for hazard insurance for the first year of the loan term, including premiums for Flood Insurance where applicable;
- credit report costs;
- the appraisal fee if required by FHA;
- fees for determining whether the Property is in an SFHA;
- a lender inspection fee up to $125;
- reasonable and customary state or local government-imposed inspection fees, as required during the site placement of a Manufactured Home, but no more than $500 may be financed into the Loan;
- recording fees, recording taxes, filing fees, and documentary stamp taxes; and
- such other items as may be specified by HUD.

The collection of Discount Points may not be financed and is not permitted unless the loan documents that the Discount Point(s) resulted in is a decrease to the interest rate.

(B) Required Documentation

The case binder must identify the fees and charges collected and financed into the Loan. The Lender must include the invoice(s) for the inspection fee, together with documentation supporting the government requirement for the inspection in the loan package for both any pre-endorsement review that may be required and any insurance claim submission.

ix. Fees and Charges that May be Collected, but May Not be Financed

(A) Standard

The following fees and charges, incurred by a Lender in connection with a Manufactured Home Loan, may be collected from a Borrower, but may not be included in the loan amount or otherwise financed or advanced by a Dealer, a manufacturer, or any other party to the loan transaction.

Discount Points may be paid by the Borrower, but only if the Lender can demonstrate a clear relationship between the Discount Points being charged and a compensating decrease in the interest rate on the Loan.

The fees and charges that may be collected and not financed are limited to the following and amounts where indicated:

- a fee for the services of a qualified Closing Agent to act on behalf of the Lender in closing a Dealer Loan transaction;
- premiums for credit life insurance or credit disability insurance;
- other fees necessary to establish the validity of a lien;

- title insurance costs for Manufactured Home Lot Loans or Combination Loans;
- survey costs for Manufactured Home Lot Loans or Combination Loans;
- escrows:
- payments into an insurance escrow account for the current year for all Title I Manufactured Homes; and
- tax escrows for the current year, only for Manufactured Home Lot Loans and Combination Loans;
- a lender inspection fee greater than $125 may be charged but not financed so long as the Lender can document that the fee is reasonable and customary;
- a site placement inspection fee conducted by a state or local government that is reasonable or customary, but no more than $500 may be financed into the Loan;
- costs for the following are permitted to be charged only for Manufactured Home Lot Loans, and Combination Loans, where applicable:
  - title insurance;
  - survey; and
  - payments into a tax escrow account for the current year; and
- such other items as may be specified by HUD.

(B) Required Documentation

The case binder must identify the fees and charges collected and not financed into the Loan. The Lender must include the invoice(s) for the inspection fee, together with documentation supporting the government requirement for the inspection in the loan package for both any pre-endorsement review that may be required and any insurance claim submission.

x. Disbursement Date

Disbursement Date refers to the date the proceeds of the Loan are made available to the Borrower.

The Disbursement Date must occur before the expiration of the credit documents.

xi. Disbursement of Loan Proceeds

(A) Standard

(1) Dealer Loan

The Lender must disburse the loan proceeds:

- solely to the Dealer or to the Borrower; or
- jointly to the Borrower and the Dealer or other parties to the transaction, including the property seller(s) or the financial institution that holds an existing loan that will be paid off with the new Loan.

The Lender must verify that loan proceeds are disbursed in the proper amount.

(2) Direct Loan

The Lender must disburse the loan proceeds solely to the Borrower or jointly to the Borrower and other parties to the transaction. The Lender must verify that loan proceeds are disbursed in the proper amount.

(B) Required Documentation

The Lender must obtain and include in the case binder the final Settlement Statement or other legal documentation detailing the transaction including fees, charges, and Disbursement.

xii. Per Diem Interest and Interest Credit

The Lender may collect per diem interest from the Disbursement Date to the date amortization begins.

Per diem interest must be computed using a factor of 1/365th of the annual rate.

xiii. Signatures

The Lender must ensure that the Loan, Note, and all closing documents are signed by all required parties in accordance with the Borrower Eligibility.

(A) Use of Power of Attorney at Closing

A Borrower may designate an attorney-in-fact to use a POA to sign documents on their behalf at closing, including the Disclosure Notice to Borrower.

Unless required by applicable state law, as stated below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- the Lender, or any employee or Affiliate;
- the loan originator, or employer or employee;
- the title insurance company providing the title insurance policy, the title agent closing the Loan, or any of their Affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

Exception

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA expressly authorizes the attorney-in-fact to execute the required documents on behalf of a Borrower, only if the Borrower, to the satisfaction of the attorney-in-fact in a recorded interactive session conducted via the Internet has:

- confirmed their identity; and

- reaffirmed, after an opportunity to review the required loan documents, their agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required Loan by such attorney-in-fact.

The Lender must obtain a copy of the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-TI signed by the Borrower or POA in accordance with Signature Requirements for All Application Forms.

(B) Electronic Signatures

See Policy on Use of Electronic Signatures.

xiv. Note

(A) Definition

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Loan.

(B) Standard

(1) Form

The Lender must ensure that the Note complies with all applicable state and local requirements for creating a recordable and enforceable Loan, and an enforceable Note. HUD does not provide Note forms or prescribe a particular Note format. The Lender must ensure that the Note and all other documents evidencing the loan transaction are in compliance with applicable federal, state, and local laws.

The Note must:

- state the principal amount of the Loan and the annual rate of interest;
- bear the signature of each Borrower and of any co-maker or Co-signer; and
- be valid and enforceable against the Borrower and any co-maker or Co-signer.

(2) Interest Rate

The interest rate is negotiated between the Lender and the Borrower. The interest rate must be fixed for the full term of the Loan and must be stated in the Note or retail sales installment contract. Interest on the Loan must accrue from the date of the Loan, and be calculated on a simple interest basis.

Adjustable Rate Mortgage products are not permitted for FHA Title I Manufactured Home Loans.

(3) Temporary Interest Rate Buydown Requirements

Temporary interest rate buydowns are not permitted.

(4) Signature

The Borrower and any co-maker or Co-signer must execute the Note for the full amount of the loan obligation. Although the Borrower(s) may sign the Note on an earlier date, the date of the Loan must be the date that the loan proceeds are disbursed by the Loan. Such date should be entered on the Note when Disbursement occurs.

(5) Payments on the Loan

The Note must provide for equal installment payments that are due monthly. The first scheduled Loan Payment must be due no later than two months from the date of the Loan. The Note may provide for the first and/or final payments to vary in amount but not to exceed 1.5 times the regular installment.

(6) Default Provision

The Note must contain a provision for acceleration of maturity, at the option of the holder, upon a monetary Default by the Borrower.

(7) Late Charges

The Note may provide for a Late Charge unless specifically precluded by state law. The Late Charge may be imposed only for a payment which is in arrears for the greater of 15 Days or the number of Days required by applicable state law. Late Charges must be billed to the Borrower or reflected in the payment coupon. Evidence of Late Charges paid by the Borrower must be in the case binder if an insurance claim is made.

(a) Amount of Late Charge

The Late Charge must not exceed the lesser of 4 percent for each installment of P&I, or the maximum amount permitted by applicable state law.

(b) Method of Payment

Payment of any Late Charge cannot be deducted from the monthly payment of P&I. Late payment fees must be calculated and shown as an additional charge to the Borrower.

(c) Daily Interest in Lieu of Late Charges

In lieu of Late Charges, the Note may provide for interest to accrue on installments in arrears, continuing daily, based on the interest rate in the Note.

(8) Prepayment Provision

Borrowers cannot be charged a prepayment penalty on any FHA Title I Manufactured Home Loan product.

(9) Recourse from Dealer

The Dealer and Title I Lender may agree to require partial or full recourse of a provision in the loan documents against the Dealer, to reduce or eliminate the Lender's loss in the event of foreclosure or repossession. Recourse provisions in the loan documents may provide for:

- a Default occurring within a period of not more than three years from the date of the Loan;
- reimbursement from the Dealer for:
  - a fixed percentage of the unpaid amount of the loan obligation, after deducting the proceeds from the sale of the Property; and
  - any amounts received or retained by the Lender after the date of Default; or
- a maximum liability to the Dealer of 100 percent of the unpaid amount of the loan obligation prior to such deductions.

xv. Security Instrument

(A) Definition

Security Instrument refers to any legal instrument that is commonly used in a jurisdiction in connection with a Loan secured by a Manufactured Home and/or Real Property.

(B) Standard

A Manufactured Home Loan must be secured by a recorded lien on the home (or lot or home and lot, as appropriate), its furnishings, equipment, accessories, and appurtenances.

The lien must be a first lien, superior to any other lien on that Property, and evidenced by a properly recorded financing statement, a properly recorded security instrument executed by the Borrower and any other owner of the Property, or another acceptable instrument, such as a certificate of title issued by the state and containing a recitation of the Lender's lien interest in the Manufactured Home.

The Lender must ensure that the description of the Manufactured Home as cited in the security instrument is accurate and that the security instrument creates a valid and enforceable lien on the Manufactured Home in the jurisdiction in which the Property is located. The security instrument must be recorded and perfected in the manner specified by applicable state law in the state where the Property is located.

For a Combination Loan, the Lender may take a security interest in the Manufactured Home as Personal Property and concurrently place a real property lien on the land. FHA permits Manufactured Homes to be split from the land and secured separately.

xvi. Post-Disbursement Unit Inspection

(A) Inspection Requirements for Dealer-Originated Sales

Dealer-originated sales of Manufactured Homes require the Lender, or an agent of the Lender who is not a Dealer, to conduct an inspection of the Manufactured Home after it has been delivered and installed at the home site. This inspection must be completed within 60 Days after the Disbursement Date. The inspection is to verify and document the following:

- The terms and conditions of the sales contract have been met.
- The Manufactured Home and any itemized options and appurtenances included in the purchase price of the home or financed with the loan proceeds have been delivered and installed.
- The Manufactured Home has been properly installed on the home site without any apparent structural damage or other serious defects resulting from the transportation or installation of the unit, and all plumbing, mechanical and electrical systems are fully operational.

(B) Inspection Requirements for Direct Loans and Non-Dealer-Originated Sales

Direct Loans and non-dealer-originated sales of Manufactured Homes require the Lender, or an agent of the Lender who is not a Manufactured Home Dealer, to conduct an inspection of the Manufactured Home after it has been delivered and installed at the home site. This inspection must be completed within 60 Days after the Disbursement Date. The inspection is to verify and document the following:

- The terms and conditions of the sales contract have been met.
- The Manufactured Home and any itemized options and appurtenances included in the purchase price of the home or financed with the loan proceeds have been delivered and installed.
- Form HUD-56002-MH executed by the Borrower(s) and the Dealer is signed by the Borrower.
- The Manufactured Home has been properly installed on the home site without any apparent structural damage or other serious defects resulting from the transportation or installation of the unit, and all plumbing, mechanical and electrical systems are fully operational.

g. Post-closing and Endorsement (11/10/2026)

i. Lender Pre-endorsement Review

The Lender must evaluate all submitted information and documentation regarding the Borrower(s) and the proposed Loan in order to confirm that the Loan is eligible for the

Title I program and meets HUD's underwriting requirements. This determination must include resolution of any problems identified during the case number assignment process.

ii. Procedures for Endorsement

(A) Standard

Immediately after closing and the Disbursement of loan funds, Lenders must submit each Loan to HUD for a post-closing, pre-endorsement approval.

HUD will examine each Loan after closing and prior to endorsement to ensure that the necessary documents have been provided and system data fields are completed.

The post-closing, pre-endorsement review is required for both DE Lenders and non-DE Lenders.

Non-DE Lenders must submit Loans for the post-closing, pre-endorsement review in addition to the required pre-closing review.

To initiate the insurance endorsement process, the Lender must complete the Title I Loan Insurance Application in FHAC and compile the case binder, with all of the necessary documents.

The Loan must be current to be eligible for endorsement.

(B) Submitting the Loan for Endorsement

Instructions for specific requirements for data format and delivery to FHAC are found in the FHA Connection Title I User Guide.

The Lender must:

- complete the Insurance Application screen in FHAC;
- remit the UFIP to FHA in a lump sum within 10 Days after the date of loan settlement or the Disbursement Date, whichever is later;
- submit evidence of assignment of the case for endorsement in the name of the originating Lender, if applicable;
- submit evidence of case number transfer, if applicable, to another Lender prior to closing; and
- submit case binder to HUD for post-closing endorsement review.

(C) Complete Insurance Application in FHAC

Once the Loan is closed, the Lender must access FHAC to complete the Insurance Application screen and pay the UFIP.

The Insurance Application screen requires the Lender to enter additional data about the Loan. The system will either confirm that the data entered was accepted, or will

provide information regarding corrections the Lender must make to successfully complete this step. Data fields that must be completed are grouped by the following subject areas:

- general loan information
- Lender information
- credit/underwriting information
- Borrower information
- address information

(D) Upfront Insurance Premium Remittance

Lenders must remit the upfront insurance premium electronically through Pay.gov. Instructions for accessing Pay.gov can be found in the Title I User Guide, which can be accessed from FHAC under Property Improvement/Manufactured Home.

HUD requires the UFIP to be paid within 10 Days of the Loan Disbursement.

(E) Late UFIP Payments

HUD views the owner of the Loan legally responsible for the payment of all valid premium charges. If the Lender uses a servicing agent to handle this function, HUD can establish billing for the agent, but the Lender remains the owner of the lender portfolio.

The Lender is assessed a penalty charge of 4 percent of the amount of any premium payment not received by HUD by the due date. Premium payments received from a Lender more than 30 Days after the due date are also assessed daily interest at the Treasury Current Value of Funds Rate. However, a Lender is not required to pay a penalty charge or daily interest if HUD fails to issue a billing statement for annual premium charges in a timely manner.

(1) 10-30 Days Late

A one-time late charge of 4 percent is assessed on a UFIP payment received more than 10 Days after the Disbursement Date. The Lender must pay the late fee before FHA will endorse the Loan for insurance.

(2) More than 30 Days Late

If the UFIP is paid more than 30 Days after the Disbursement Date, the Lender will be assessed the late fee plus interest. The interest rate is the Treasury Current Value of Funds Rate in effect when the UFIP payment is received. The Lender must pay both charges before FHA will endorse the Loan for insurance.

(F) Printout of Case Number Assignment Screen

The Lender must include a printed copy of the case number assignment screen showing originating Lender if applicable.

(G)Submitting Loans for Post-closing/Endorsement Review

Lenders must submit loan documents to the attention of MH Post-closing Endorsement Review at the FOC.

During the post-closing endorsement review, HUD determines if the Loan meets all program requirements. HUD will review the documentation to ascertain if there is any indication that any certification or required document is false, misleading, or constitutes fraud or misrepresentation.

(H)Timely Endorsement

The Lender must report each Loan for insurance in FHAC within 30 Days from the date of the Loan's Disbursement or purchase from a Dealer or another Lender. Any Loan refinanced under this part must similarly be reported on the prescribed form within 30 Days from the date of refinancing.

(I) Initial Request for Endorsement

The insurance application request is considered complete once HUD has received the case binder, the UFIP has been paid, and the insurance application in FHAC has been completed and has passed all system validations.

The date a case binder is received is based on the date the FOC receives the required lender documentation. The Lender is responsible for having the case binder delivered to the FOC within the allotted time period. Lenders may confirm the date that the lender documentation was received by accessing the Case Status screen in FHAC.

(J) Late Request for Endorsement

A late endorsement certification must be submitted to HUD with the insurance package for review and consideration if the Loan is not submitted for endorsement within the required 30 Day period after closing.

(K)Late Endorsement Certification

Lenders must certify, via FHAC, that all Loans reported for insurance after 30 Days from the Disbursement are not currently in Default. A certification window automatically appears when a Loan is reported past the deadline and must be checked in order to continue the insurance submission process.

At the time of the certification the Lender is confirming that:

- no Loan Payment was currently past due more than 30 Days; and
- the Lender or its agents did not provide the funds to bring and/or keep the Lender current or to bring about the appearance of an acceptable payment history.

(L) HUD Determination of Endorsement

HUD will review the Lender's certification and make a determination to accept or reject the request. HUD will endorse the Loan provided the final review indicates that the degree of risk to HUD has not increased since the time of closing. A Loan that is in Default when submitted for endorsement will not be insured, except in those instances where it can be demonstrated that HUD was responsible for a delayed request for endorsement.

(M) Loan Insurance Certificate

Once determined as acceptable, HUD will endorse the Loan via FHAC and issue a Loan Insurance Certificate (LIC). The LIC will be made available to the Lender through FHAC. The LIC must be printed and retained by the Lender in the case binder.

A Loan is not insured until HUD issues an LIC for the Loan. The LIC is an electronic document generated by HUD via FHAC and is documentary evidence of the insurance.

(N) Assembly of Case Binder

The Lender must prepare and submit a uniform case binder to the FOC.

(1) Uniform Case Binder Requirements

The Lender must ensure that all case binders are complete, meet FHA specifications, and contain all required documents arranged in the correct stacking order.

Lenders must submit loan documents to the attention of MH Pre-Closing Review at the FOC.

HUD requires the following documentation to be included in the case binder. These documents may be sent in either hard copy or electronic format. HUD does not require a specific electronic format but reserves the right to reject electronic documents if the format is not compatible with HUD systems or if otherwise not readable by HUD.

(2) Case Binder Stacking Order

The Lender must ensure that all required documents, as applicable, are arranged in the stacking order chart below.

Left Side
Purchase Transactions
Retail Purchase/Installment Contract
Manufacturer's Invoice (newly constructed)
Invoices for options/installation costs
Manufacturer's warranty
Rental lease for the lot, if applicable
Appraisal and Related Documents
Manufactured home appraisal (existing unit)
Form HUD-56002-MH, *Placement Certificate for Manufactured Home*
Site Suitability Documentation
Life of Loan Flood Certification
Evidence of Flood Insurance (required if Property is in flood zone A or V.)
LOMR, LOMA, Elevation Certificate
Evidence of hazard insurance (showing amount of coverage and the amount of the annual premium if the premium was financed)
Right Side
Underwriting Documentation
Form HUD-27030, *Title I Transfer of Note Report*
Underwriter's worksheet with debt ratio calculations, and any notes, explanations, clarifications, or attachments
Note or assigned Retail Installment Contract
Security Instrument for new first lien
Secondary Lien Exhibits
Settlement Statement or similar legal document
Lender's worksheet or other documents with a calculation/itemization of the amount charged and financed
FHA/RESPA/TILA Required Disclosures
Power of Attorney
Uniform Residential Loan Application (URLA) and form HUD-92900-TI
Notice to Borrower of HUD's Role in Title I Loans
Documentation of Credit Alert Verification Reporting System (CAIVRS) and Limited Denial of Participation (LDP) List / General Services Administration's (GSA) SAM clearance
Refinance Documentation
Payoff Statement(s) for all liens to be satisfied with Loan proceeds
Borrower Identification Documentation
Proof of identity verification
Proof of SSN verification
Legal residency status documents for non-U.S. citizens
CAIVRS clearance
Credit and Capacity Documentation
Traditional credit report, and non-traditional references, if applicable

Verification of Mortgage or rent
Explanation for material credit inquiries within 90 Days and any existing credit problems
Housing Counseling Certificate(s)
Source of Funds Verification
Verification of non-gift source of funds
Verification of gift source of funds
Income and Employment Documentation
Verification of employment and income grouped by Borrower
Lender's contact information (Name, email, phone number)

(O) Ineligible for Insurance

(1) Non-Endorsement Notice/Notice of Return

If HUD determines the Loan to be ineligible for endorsement, the FOC will generate a Non-Endorsement Notice/Notice of Return (NOR). The NOR will include the reason(s) for non-endorsement and detail any corrective action that must be taken by the Lender.

Corrective action may include providing the FOC with additional or revised documentation for the case binder or providing additional or revised data on the Insurance Application screen. After taking corrective action, the Lender can access the Insurance Application screen and resubmit the insurance request for review. If HUD issues an NOR and the Lender chooses not to resubmit the case for review, the Lender must report this to HUD via FHAC. The Lender must also obtain a refund of the UFIP paid to HUD and apply the refund to the principal balance of the Lender.

(2) Final Rejection of Endorsement

If HUD determines that the case is ineligible for endorsement based on a defect that cannot be corrected, the NOR will indicate that it is a permanent rejection. In such case, the NOR will instruct the Lender to notify the Borrower that the Loan will not be insured by HUD/FHA and to inform the Borrower regarding the circumstances that make the Loan ineligible for FHA insurance. The Lender must also obtain a refund of the UFIP paid to HUD and apply the refund to the principal balance of the Loan.

(3) Denied or Canceled Loans

Lenders must report to HUD, through FHAC, the denial or cancellation of all Loans for which a Title I case number has been issued.

iii. Post-Endorsement Technical Reviews

HUD will perform Post-Endorsement Technical Reviews (PETR) on a sample of insured Loans from the Lender. This review includes a detailed analysis of the origination, credit underwriting and post-closing documentation provided by the Lender with the request for endorsement submission. HUD may request servicing documents or other additional documentation from the Lender to complete this review.

HUD will provide the Lender with a rating for each Loan reviewed and, if applicable, specific feedback pertaining to the rating. The ratings are described below.

(A) Conforming

A Loan receives a rating of conforming when the lender review finds no documentation errors, omissions or violations of Title I regulations. This rating is also dependent on HUD's determination that the Lender's decision to approve the Loan was sound and the level of risk was acceptable.

(B) Deficient

A Loan receives a rating of deficient when the lender review identifies documentation errors or omissions that HUD expects can be corrected by the Lender in future submissions for insurance endorsement. This rating is also dependent on HUD's determination that the Lender's decision to approve the Loan was sound and the level of risk was acceptable.

Lenders who consistently submit deficient files may be subject to increased PETR sampling and may risk the loss of their Title I Direct Endorsement privileges.

(C) Unacceptable

A Loan receives a rating of unacceptable when serious violations of FHA requirements were found or if documentation was missing that would be necessary to determine if underwriting guidelines were followed. HUD will issue a letter to the Lender identifying the reason for the unacceptable rating. The Lender is required to respond within 30 Days from the date of the letter, with a satisfactory explanation as to why the Loan was approved. Failure to respond, or the receipt of an unsatisfactory response, may result in HUD requesting the Lender to indemnify HUD against any loss associated with the Loan. Demands for indemnification may be made by the Director of the Quality Assurance Division (QAD), by the Office of Lender Activities and Program Compliance or by the Mortgagee Review Board (MRB).

If indemnified, the Loan will be flagged within the Title I insurance system to prevent claim payment to the offending Lender. Serious Findings may also result in the loss of Title I Direct Endorsement privileges.

(D) Mitigated

Loans that were initially rated as unacceptable may subsequently be given a rating of mitigated. To receive a mitigated rating, the Lender must provide documentation in response to the initial unacceptable rating and HUD must determine that this documentation mitigates all risks to HUD.

iv. Inspection Requirements for Loans Pending in Presidentially-Declared Major Disaster Areas

All Properties with Loans in process or pending endorsement in Presidentially-Declared Major Disaster Areas (PDMDA) must have a damage inspection report that identifies and quantifies any dwelling damage. The report must be dated after the Incident Period (as defined by FEMA). FHA does not require a specific form for a damage inspection report.

Streamline Refinances are allowed to proceed to closing and/or endorsement without any additional requirements. Lenders must insure that any damage identified on the report is repaired and that the home is restored to pre-disaster condition prior to submitting for insurance endorsement.

FHA does not require that utilities are on at the time of this inspection if they have not yet been restored for an area.

h. Programs and Products (05/09/2022)

i. Manufactured Home Lot Loans and Combination Loans

The FHA Title I Manufactured Home Loan program also insures Manufactured Home Lot Loans and Combination Loans. Manufactured Home Lot Loans and Combination Loans are subject to the same policies and guidelines as Manufactured Home Loans. Policies and guidelines that apply specifically to Manufactured Home Lot Loans or Combination Loans are detailed throughout this section.

ii. Manufactured Home Lot

A manufactured home lot may consist of a deeded parcel of real estate, a lot in a subdivision or a lot in a PUD. A manufactured home lot may also consist of an interest in a manufactured home Condominium Project, including any interest in the common areas, or a share in a cooperative association which owns and operates a manufactured home community.

The lot must comply with HUD's requirements for a suitable manufactured home site.

Manufactured Home Lot Loans

A Manufactured Home Lot Loan is used to purchase a parcel of real estate to be used as a site for placement of a Manufactured Home. A Manufactured Home Lot Loan may

include the cost to develop the lot to make it a suitable site for a Manufactured Home, including onsite water and utility connections, sanitary facilities, site improvements and landscaping.

(A) Definition

Manufactured Home Lot Loan refers to a Loan for the purchase or refinancing of a portion of land acceptable to HUD as a manufactured home lot. The manufactured home lot may consist of platted or unplatted land, a lot in a recorded or unrecorded subdivision or in an improved area of such subdivision, or a lot in a PUD. A manufactured home lot may also consist of an interest in a manufactured home Condominium Project (including any interest in the common areas) or a share in a cooperative association which owns and operates a manufactured home park.

(B) Eligibility Requirements

The following eligibility requirements apply to Manufactured Home Lot Loans:

- ownership of the lot must be held in Fee Simple, except when the lot consists of a share in a cooperative association which owns and operates the manufactured home community; and
- the Manufactured Home must be placed on the lot and occupied as the Borrower's Principal Residence within six months after the date of the Loan.

(C) Maximum Loan Amounts

The loan amount must not exceed the Maximum Loan Amount restrictions for:

- Nationwide Loan Limits;
- minimum downpayment requirements;
- Minimum Decision Credit Score limitations;
- maximum LTV; and
- LTV calculations applicable to the loan transaction type for the manufactured home lot.

The UFIP may be added to the Base Loan Amount, not to exceed the Nationwide Loan Limit.

The maximum Base Loan Amount is determined by applying the appropriate LTV factor (95 percent or 90 percent) to the lesser of:

- the appraised value of an already developed lot plus financeable fees and charges; or
- the purchase price of the lot plus development costs plus financeable fees and charges.

(D) Loan Term

The maximum term for a Manufactured Home Lot Loan must not exceed 15 years and 32 Days from the date of the Loan.

iii. Combination Loan

A Combination Loan is used to purchase a Manufactured Home and a parcel of real estate on which the unit will be placed in a single loan transaction.

The lot must comply with HUD's requirements for a suitable manufactured home site.

A Combination Loan may also be used to combine the refinancing of an existing Manufactured Home Loan with the acquisition of a lot, or the refinancing of a Manufactured Home Lot Loan with the acquisition of a Manufactured Home.

(A) Eligibility Requirements

In addition to the guidelines specified in Manufactured Home Lot, the following requirements apply to Combination Loans.

(1) Lot Ownership

Title for the lot must be owned by the Borrower and held in Fee Simple, except when the lot consists of a share in a cooperative association which owns and operates the manufactured home community.

(2) Home Ownership

The Manufactured Home must be treated as Personal Property or Chattel when it retains its vehicle title (or certificate of title).

Title to the Manufactured Home must be held in Fee Simple if the Manufactured Home is classified as realty by the state or locality in which the Property is located, and the vehicle title is surrendered and canceled.

(3) Principal Residence Only

The Manufactured Home must be placed on the lot and occupied as the Borrower's Principal Residence within six months of the date of the Loan.

(4) Maximum Loan Limit

The loan amount must not exceed the Maximum Loan Amount restrictions for:

- Nationwide Loan Limits;
- minimum downpayment requirements;
- Minimum Decision Credit Score limitations;

- maximum LTV; and
- LTV calculations applicable to combination Manufactured Home and lot property types, which is described below.

The maximum loan amount for a Combination Loan is further limited by the cost or value of the lot and home as follows:

(1) The minimum downpayment and maximum LTV requirements must be calculated using the total purchase price of the Manufactured Home and lot.

(2) The total purchase price of a Manufactured Home and lot may include Eligible Options and Accessories.

(3) If the Borrower already owns a Manufactured Home or a lot on which a Manufactured Home is to be placed, the Borrower's equity in such a home or lot may be accepted in lieu of full or partial cash downpayment.

(4) When equity in a home or lot is used to meet any portion of the downpayment requirement, the Loan may not allow any cash back to the Borrower.

(5) The UFIP may then be added to be Base Loan Amount, provided that the Total Loan Amount does not exceed the Nationwide Loan Limit.

(B) Loan Term

The maximum loan term for a single unit Combination Loan may not exceed 20 years and 32 Days from the date of the Loan.

The maximum loan term for a multi-unit Combination Loan may not exceed 25 years and 32 Days from the date of the Loan.

(C) Interim Interest on Lot

The Lender may not charge the Borrower interim interest on the money advanced to pay for the lot.

(D) Security Instrument

In addition to compliance with the security instrument standards, the security instrument must attach to the Real Property as well as to the Manufactured Home. The security instrument must be in proper form and properly recorded to create a valid and enforceable lien against the Property.

iv. Title I Refinance Transactions

(A) Definition

A Refinance Transaction establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property. The refinance Loan may also advance additional funds for the purchase of a home or lot, which is also referred to as a Combination Loan.

(B) Types of Title I Refinances

(1) Cash-Out or Cash Back (Not Permitted)

A Cash-Out Refinance is a refinance of any Loan that advances additional credit to the Borrower, or for which the loan proceeds are used for ineligible purposes.

A Cash Back Refinance or a transaction that provides cash back to the Borrower is not permitted for the Manufactured Home Loan program.

(2) No Cash-Out

(a) Title I to Title I Refinance

An existing Title I insured Manufactured Home Loan may be refinanced with or without an advance of additional funds that is used to add an eligible property type.

Title I Refinances are categorized into three possible refinance types.

(i) Simple Title I Refinance

A Simple Title I Refinance refers to a no cash-out refinance of an existing Title I insured Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan. The proceeds of a Simple Refinance are exclusively used to pay off the existing debt plus eligible fees and charges.

(ii) Streamline Refinance (Non-credit Qualifying)

A Streamline Title I Refinance refers to the refinance of an existing Title I insured Loan for which the Lender is not required to perform credit or capacity analysis or obtain an appraisal.

(iii) Title I Refinance with Advance of Funds

An existing Title I insured Manufactured Home Lot Loan or Manufactured Home Loan may be refinanced with an advance of additional funds to purchase a manufactured home unit or lot.

This type of refinance will result in a new Combination Loan.

(b) Conventional to Title I Refinance

Proceeds from a new Title I insured Loan may be used to pay off an existing Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan that is not insured by HUD.

Conventional to Title I Refinances are categorized into two possible refinance types.

(i) **Regular Conventional to Title I Refinance**

An existing conventional Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan that was not insured by HUD may be refinanced with a new Title I insured Loan. The proceeds of a regular refinance are exclusively used to pay off the existing debt plus eligible fees and charges.

(ii) **Conventional Refinance with Advance of Funds**

An existing conventional Manufactured Home Loan may be refinanced with an advance of additional funds to purchase a lot on which to place the home. Similarly, an existing conventional Manufactured Home Lot Loan may be refinanced with an advance of additional funds to purchase a manufactured home unit.

This type of refinance will result in a new Combination Loan.

(C) FHA-Insured to FHA-Insured Refinances

FHA-Insured to FHA-Insured refinances may be used with any refinance type.

(D) Borrower Occupancy Requirements

(1) Standard

Refinances may be used only for Principal Residences.

(2) Required Documentation

The Lender must review the Borrower's employment documentation or obtain utility bills to evidence that the Borrower currently occupies the Property with a manufactured unit as their Principal Residence.

(E) Disclosure to Borrower: "Notice to Borrower of HUD's Role"

For each new Title I insured Loan, a Notice to Borrower of HUD's Role in Title I Loans must be issued and acknowledged by all Borrowers.

(F) Premium Charges

Every new Title I Loan requires payment of a UFIP charge, and annual premium.

(G) Loan Maturities

The maximum term for the new refinance must not exceed:

Loan Type	Maximum Loan Term
Manufactured Home Loan	20 years and 32 Days
Manufactured Home Lot Loan	15 years and 32 Days
Combination Lot and Single Unit Manufactured Home	20 years and 32 Days
Combination Lot and Multi-unit Manufactured Home	25 years and 32 Days

(H) Limit on Total Time Period

In the case of a refinance of a previous Title I Loan, the total time period from the date of the original Loan to the final maturity of the refinanced Loan must not exceed the maximum term permitted for a new Loan of the same type.

(I) Existing Loan Payoff Amount

(1) Standard

A loan payoff statement is required on all Title I Loans secured by the Property that will be paid off with the new Title I Loan.

(2) Required Documentation

The Lender must obtain the payoff statement for all existing Loans.

(J) Note and Security Requirements

(1) Standard

Refinancing requires the Borrower(s) to execute a new Note. The new Note must comply with the same requirements as an original Title I Loan and must be properly secured.

(2) Required Documentation

The Borrower(s) must execute a new Note.

The Lender must obtain and record a new security instrument and ensure a release of the original lien unless state law permits a renewal and extension of the original lien.

(K) Original Title I Case Binder

For a Title I to Title I Refinance, copies of all documents pertaining to the original Title I Loan must be retained in the refinance case binder.

(L) Conditions for Refinance by Loan Type

(1) Streamline Refinance (Non-credit Qualifying)

Streamline Refinance may be used when the proceeds of the Loan are used to extinguish an existing Title I insured Loan with first place lien.

An existing Manufactured Home Loan and/or Manufactured Home Lot Loan that is not Title I insured is not eligible for a non-credit qualifying Streamline Refinance transaction.

(a) Lender of Record Only

Only the Lender that owns the Title I Loan according to HUD's records may Streamline Refinance an existing Title I Loan. Another Lender would need to obtain the Loan from the current Lender of record through sale, assignment or transfer in order for the Loan to be eligible for a Streamline Refinance transaction. The sale, assignment or transfer of the Loan must be reported to HUD as required in the Servicing Title I Manufactured Home Loan Program section.

(b) Co-maker or Co-signer on Existing Loan

The Lender must require any co-makers or Co-signers on the original Note to be obligated on the refinance Note.

To release a co-maker or Co-signer from liability on an existing Note, the Lender must obtain pre-approval from HUD.

(c) Previous Assumption

A Loan that was assumed may be refinanced only if the original Borrower and any intervening assumptors were released from liability, either at the time the Loan was assumed or through permission from HUD.

(d) Maximum Loan Amount

The maximum loan amount of a Streamline Refinance is limited to the cost of prepaying the existing Loan, plus Financeable Fees and Charges, and the new UFIP.

An existing Title I Loan that is in Default may be refinanced, but not for an amount greater than the original principal balance of the Loan. The UFIP may be added, not to exceed the Nationwide Loan Limits.

(e) Credit Analysis

Lenders are not required to conduct credit or capacity analysis or obtain an appraisal.

(2) Simple Title I Refinance

An existing Title I insured Manufactured Home, Lot or Combination Loan may be refinanced to pay off an existing Title I Loan, without an advance of additional funds or cash back to the Borrower.

(a) Lender of Record Only

Only the Lender that owns the Title I Loan according to HUD's records may refinance an existing Title I Loan. Another Lender would need to obtain the Loan from the current Lender of record through sale, assignment or transfer in order for the Loan to be eligible for a Simple Refinance transaction. The sale, assignment or transfer of the Loan must be reported to HUD in compliance with form HUD-27030, *Title I Transfer of Note Report*, requirements.

(b) Previous Assumption

A Loan that was assumed may be refinanced only if the original Borrower and any intervening assumptors were released from liability, either at the time the Loan was assumed or through permission from HUD.

(c) Maximum Loan Amount

The maximum loan amount of a Simple Title I Refinance is limited to the cost of prepaying the existing Loan, plus Financeable Fees and Charges, and the new UFIP.

Cash back to the Borrower is not permitted.

(d) Loan in Default

The existing Title I Loan must not be in Default.

(e) Credit Qualification

Lenders must underwrite the Simple Title I Refinance Loan to ensure compliance with Title I credit and capacity requirements. An appraisal is not required.

(f) Original Case Binder

Copies of all documents pertaining to the original Title I Loan must be retained in the case binder of the refinanced Loan.

(3) Title I Refinance with Advance of Funds

An existing Title I insured Manufactured Home Loan or Manufactured Home Lot Loan may be refinanced with an advance of additional funds to purchase a manufactured home unit or lot.

This type of refinance will result in a new Combination Loan.

(a) Lender of Record Only

Only the Lender that owns the Title I Loan according to HUD's records may refinance an existing Title I Loan. Another Lender would need to obtain the Loan from the current Lender of record through sale, assignment or transfer in order for the Loan to be eligible for a Title I refinance with advance of funds transaction. The sale, assignment or transfer of the Loan must be reported to HUD in compliance with form HUD-27030 requirements.

(b) Loan in Default

The existing Title I Loan must not be in Default.

(c) Previous Assumption

A Loan that was assumed may be refinanced only if the original Borrower and any intervening assumptors were released from liability, either at the time the Loan was assumed or through permission from HUD.

(d) Maximum Loan Amount

(i) Base Loan Amount

The cost of the UFIP charge may be added to the Base Loan Amount, not to exceed the Nationwide Loan Limits for the transaction.

An advance of loan proceeds or cash back to the Borrower is not permitted.

(ii) Refinance of a Home Loan with Advance to Purchase a Lot

The maximum base Combination Loan amount is limited to:

- the existing debt on the Manufactured Home Loan; plus
- Eligible Fees and Charges associated with the new Loan; plus
- the lesser of:
  - the purchase price of the lot and any development costs; or
  - the appraised value of the lot.

(iii) Refinance of a Manufactured Home Lot Loan with Advance of Funds to Purchase New Home

The maximum base Combination Loan amount is limited to the existing debt on the Title I Manufactured Home Lot Loan, plus the sum of the following items eligible to be financed for the purchase of a New Manufactured Home multiplied by the appropriate LTV factor (95 percent or 90 percent):

- 130 percent of the sum of the wholesale (base) price of the home plus eligible itemized options, including the charge for freight, as detailed on the Manufacturer's Invoice or found on the Wholesale (Base) Price List;
- sales tax to be paid by the Borrower, as detailed in the retail sales contract;
- Dealer's actual cost of transportation to the home site, set-up and anchoring, including the rental of wheels and axles (if not included in the freight charges);
- Dealer's actual cost for skirting, garage, carport, patio, or other appurtenance, and for the purchase and installation of a central air conditioning system or heat pump (if not installed by the manufacturer); and
- fees and charges that may be financed.

(iv) Refinance of a Title I Manufactured Home Lot Loan with Advance of Funds to Purchase Existing Home

The maximum Base Loan Amount is limited to:

- the existing Title I debt on the Manufactured Home Lot Loan; plus
- Eligible Fees and Charges associated with the new Loan; plus
- the appropriate LTV Factor (95 or 90 percent) applied to the lesser of:
  - the purchase price of the home, including costs to the Borrower for all items described in the sales contract and any eligible options as documented in the file; or
  - the appraised value of the home as described in the sales contract, including any eligible options itemized in the sales contract or documented in the file.

(e) Underwriting and Documentation Requirements

The refinance of a Manufactured Home Loan or Manufactured Home Lot Loan to a new Combination Loan will increase the loan amount and be subject to all other underwriting and processing requirements for the Manufactured Home Loan program.

(f) Appraisal Requirements

For refinances with advance of funds to purchase a lot, the Lender must obtain a HUD-approved appraisal of the lot.

(g) Original Case Binder

Copies of all documents pertaining to the original Title I Loan must be retained in the case binder of the refinanced Loan.

(h) Placement Certificate

A new form HUD-56002-MH is required for the addition of the manufactured home unit to the lot.

(4) Conventional to Title I Refinance

An existing conventional Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan that was not insured by HUD may be refinanced with a new Title I insured Loan under the following conditions.

(a) Loan Default

The original Loan must not be in Default.

(b) Existing Borrowers Must Be Retained

The Lender must require all Borrowers, including co-makers or Co-signers, on the original Note to be obligated on the refinance Note.

(c) Maximum Loan Amount

(i) Conventional to Title I Refinance with no Advance of Funds

The maximum Base Loan Amount for a Conventional to Title I Refinance with no advance of funds is the lesser of the cost of prepaying the existing Loan or the appraised value of the Property.

The cost of the UFIP charge may be added to the Base Loan Amount, not to exceed the Nationwide Loan Limits.

An advance of loan proceeds or cash back to the Borrower is not permitted.

***(ii)* Refinance with Advance of Funds to Purchase a Lot**

The maximum base Combination Loan amount is limited to:

- the existing debt on the Manufactured Home Loan; plus
- Financeable Fees and Charges associated with the new Loan; plus
- the lesser of:
  - the purchase price of the lot and any development costs; or
  - the appraised value of the home and lot as determined by a HUD-approved appraisal.

***(iii)*Refinance with Advance of Funds to Purchase a Home**

To determine the maximum Base Loan Amount for a refinance of a conventional Loan and purchase of a New Manufactured Home, the Lender must follow the same calculation requirements as described for a Refinance of a Title I Manufactured Home Lot Loan with Advance of Funds to Purchase New Home.

To determine the maximum Base Loan Amount for a refinance of a conventional Loan and purchase of an Existing Manufactured Home, the Lender must follow the same calculation requirements as described for a Refinance of a Title I Manufactured Home Lot Loan with Advance of Funds to Purchase Existing Home.

(d) Placement Certificate

A new form HUD-56002-MH is required for the addition of the manufactured home unit to the lot.

(e) Underwriting and Documentation Requirements

All Conventional to Title I Refinance Loans are subject to all other underwriting and processing requirements for the Manufactured Home Loan program. Borrowers on the refinanced Loan must demonstrate acceptable credit and meet qualifying ratios.

(f) Appraisal Requirements

For a Conventional to Title I Refinance, the Lender must obtain an appraisal on the secured Property that complies with appraisal requirements.

For a Conventional Refinance with Advance of Funds to purchase a lot, the Lender must obtain a HUD-approved appraisal of the home and lot.

An appraisal is not required for refinance with advance of funds to purchase a new home. However, an appraisal must be obtained when the advance of funds purchases an existing home.

(g) Co-maker or Co-signer on Existing Conventional Loan

The Lender must require the co-makers or Co-signers on the original Note to be obligated on the refinance Note.

To release a co-maker or Co-signer from liability on the Note, the Lender must obtain pre-approval from HUD.

(h) Previous Assumption

A Loan that was assumed may be refinanced only if the original Borrower and any intervening assumptors were released from liability.

(M) Refinancing Title I Loans that Were Originated on or Prior to June 1, 2009

The 10 percent portfolio reserves limitation applies only to Loans originated prior to June 1, 2009 (implementation date of the FHA Manufactured Housing Loan Modernization Act of 2008) and does not apply to refinanced Loans.

Loans originated prior to June 1, 2009 and refinanced on or after June 2009 will be removed from the Lender's portfolio insurance reserve account and will be individually insured based on the credit policies and insurance premiums (upfront and annual) in effect at the time of refinance.

(N) Insurance Processing

Refinanced Loans must be submitted to HUD for insurance endorsement within 30 Days after loan Disbursement as outlined in Procedures for Endorsement. When reporting a refinance of a prior Title I Loan, Lenders must supply information on the original Loan so that HUD may terminate the Title I insurance on the original Loan. HUD will also prorate any unpaid installments on the insurance charge between the old Loan and the new Loan. Lenders are cautioned not to erroneously submit a refinanced Loan as a new Loan.

F. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE I LOANS

1. Appraiser Qualifications (05/09/2022)

When an appraisal is required, the Lender must engage a Chattel Appraiser who is not engaged in the business of manufactured home retail sales.

2. Appraiser Requirements (05/09/2022)

All Appraisers must comply with the Uniform Standards of Professional Appraisal Practice (USPAP), including the Competency Rule, when conducting appraisals of Properties classified as Personal Property or Real Property. Certified real estate Appraisers providing appraisal services for land parcels and/or a real property interest in the Manufactured Home will follow USPAP Standards 1 and 2 when developing and reporting the results of the appraisal. All Appraisers providing services involving Manufactured Homes where the property interest is Chattel (or Personal Property) will follow USPAP Standards 7 and 8 when developing and reporting the results of the appraisal.

The Appraiser must include evidence that the Appraiser meets one of the qualification standards, such as a copy of a current certification, a printed web page or other documentation showing that the Appraiser is:

- MHV certified on the MHV registry; or
- a certified real estate Appraiser who is active on the FHA Appraiser Roster.

Requirements for Appraisers of real estate interests and Chattel (or personal property interests) are found in the Other Participants - Appraisers section of Doing Business with FHA in Handbook 4000.1.

3. Commencement of the Appraisal (05/09/2022)

The Appraiser must obtain all of the following from the Lender before beginning an appraisal:

- a complete copy of the executed sales contract for the sale of the Manufactured Home and land, or, if the Manufactured Home and land are being purchased separately, the executed contract for each;
- the land lease, if applicable;
- surveys or legal descriptions, if available;
- any other legal documents contained in the case binder; and
- a point of contact and contact information for the Lender so that the Appraiser can communicate any noncompliance issues.

4. Analysis and Reporting Requirements (05/09/2022)

The Appraiser must observe and analyze the entire Property that is the subject of the appraisal and report all characteristics of the Property that are relevant to value conclusion. The Appraiser must report the condition of the Property.

Inspection Requirements

The Appraiser or a field inspector contracted by the Appraiser must inspect chattel property. The Appraiser must review and evaluate the work of any inspector and, in accordance with appraisal standards, incorporate those findings into the valuation opinion. The certified Appraiser must attest to the competency of the inspector and take full responsibility for the chattel interest conclusions when completing and finalizing the appraisal.

If the Appraiser is appraising a real estate interest, the Appraiser must inspect the subject site. The Appraiser or the field inspector must inspect the Chattel.

The conclusions about the observed conditions of the Property contribute to the rationale for the opinion of value.

5. Valuation Development – Chattel

a. Standard (05/09/2022)

There are three valuation approaches as applied to one-to four-residential unit Properties and Manufactured Homes:

- sales comparison approach;
- cost approach; and
- income approach to value.

The Appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant. If the Appraiser cannot find sufficient data to complete one or more of the approaches to provide a credible valuation, the Appraiser must explain the lack of inclusion of that approach and the effect on the valuation and credibility of the appraisal analysis.

b. Required Analysis (05/09/2022)

The Appraiser must obtain credible and verifiable data to support the application of the three approaches to value.

The Appraiser must perform a thorough analysis of the characteristics of the market, including the supply of properties that would compete with the subject and the corresponding demand.

If a real property interest is being appraised, the Appraiser must perform a highest and best use analysis of the Property using all valuation approaches and report the results of that analysis.

The application of the approaches to value requires that the Appraiser obtain credible and verifiable data to support each approach. Data must be drawn from a collection and storage database that is wholly independent from any individual or organization that has an interest in the Property being appraised.

6. Valuation Development – Borrower-Owned Land

a. Definition (05/09/2022)

A Borrower-Owned Land Appraisal refers to the valuation of an interest in land without man-made Structures.

b. Standard (05/09/2022)

A Borrower-owned land appraisal is required under Title I when a real estate interest in land is acquired to support the Manufactured Home.

When the secured Property consists of a borrower-owned lot and a Manufactured Home that are, in combination, treated as real estate by the local government, the Lender must obtain a single appraisal from an FHA Roster Appraiser.

c. Required Analysis and Reporting (05/09/2022)

The Appraiser must provide a written narrative format or a commercially available reporting form. The appraisal report must include, at minimum, the following:

- property address;
- legal description;
- owner of record;
- occupancy;
- assessment and tax information;
- property rights appraised;
- site size;
- zoning;
- highest and best use;
- shape;
- topography;
- drainage;
- availability of utilities;
- site amenities;
- drainage;
- if it is located within a FEMA-designated SFHA; and
- a sales grid, including:
  - detailed information on at least three comparable sales;
  - a quantitative comparison of those property attributes to the subject;
  - a comparison of the number of comparable unimproved properties sold to the number of offered and listed for sale to determine supply and demand, absorption rate, and other market data required so that the report is not misleading; and
  - certification and limiting conditions as included in Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report* (*URAR)*, Fannie Mae Form 1004C/Freddie Mac Form 70B, *Manufactured Home Appraisal*

Report, and any other forms and documentation necessary to comply with USPAP Standard 2.

When completing the sales grid, the Appraiser must compare and appropriately adjust the sales of comparable unimproved building lots or sites for differences in location, size, zoning, utility connection or availability of utility connection, site improvement and any other pertinent factors. The Appraiser must then reconcile the adjusted sales into a value conclusion.

The Appraiser must calculate and extract any costs to be incurred from razing the existing improvements and cleaning up the site from the value of the supporting land to arrive at a final conclusion of value of the site as if vacant and ready to be put to its highest and best use.

7. Reporting Requirements

a. Standard (05/09/2022)

HUD does not provide a specific appraisal form to be used for valuation of a borrower-owned lot, or a Manufactured Home classified as Personal Property.

b. Certification (05/09/2022)

Regardless of the form used, the appraisal report must contain a signed certification that is similar in content to the following certification statement:

I certify that, to the best of my knowledge and belief:

— The statements of fact contained in this report are true and correct.

— The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

— I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.

— I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

— I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

— My engagement in this assignment was not contingent upon developing or reporting predetermined results.

— My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

— My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

— I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)

— No one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.)

— A field inspector was (or was not) used. I have reviewed and evaluated the work of the inspector and, in accordance with appraisal standards, incorporated those findings into the valuation opinion. I attest to the competency of the inspector and take full responsibility for the value determination of chattel interest.

8. Appraisal Exhibits and Photos (04/10/2025)

If the Manufactured Home is already set on the lot, the Appraiser must include a legible street map showing the location of the subject, and, when used, each of the comparable properties, including sales, rentals, listings, etc., utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings contributing value. The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser’s observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	**Minimum Photograph Requirements**
Subject Property Exterior	• Front and rear at opposite angles to show all sides of the dwelling • Improvements with Contributory Value not captured in the front or rear photographs • Street scene photograph to include a portion of the subject site • For New Construction, include photographs that depict the subject's grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot • For a Manufactured Home Lot Loan, a photograph that shows the above grade of the vacant lot
Subject Property Interior	• Kitchen, main living areas, bathrooms, and bedrooms • Any other room representing overall condition • Basement, attic, and crawl space • Recent updates, such as restoration, remodeling, and renovation • For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms, and other common areas
Comparable Sales, Listings, Pending Sales, Rentals, etc. (applicable to appraisals that use comparable approach)	• Front view of each comparable utilized • Photographs must be taken at an angle to depict both the front and the side during the required exterior viewing of the comparable from the street when possible • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance
View	• Photographs of any negative or positive view influences that substantially affect value or marketability
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair
Condominium or Leased Projects	• Additional photographs of the common areas and shared amenities of the Condominium Leased Project

9. HUD Certification Label

a. Definition (05/09/2022)

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Homes.

b. Standard (05/09/2022)

Manufactured Homes must have an affixed HUD Certification Label located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the house as practicable. Etched on the HUD Certification Label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

c. Required Analysis and Reporting (05/09/2022)

The Appraiser must report the HUD label number for all sections, or report that the HUD Certification Label is missing or that the Appraiser was unable to locate it.

10. Data Plate

a. Definition (05/09/2022)

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

b. Standard (05/09/2022)

Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen.

c. Required Analysis and Reporting (05/09/2022)

The Appraiser must report the information on the Data Plate within the appraisal, including the manufacturer name, serial number, model and date of manufacture, as well as wind, roof load and thermal zone maps.

If the Data Plate is missing or the Appraiser is unable to locate it, the Appraiser must report this in the appraisal and is not required to obtain the Data Plate information from another source.

III. SERVICING AND LOSS MITIGATION

A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

This section provides the standards and procedures applicable to the servicing of all Single Family (one- to four-units) Mortgages insured under Title II of the National Housing Act, except for Home Equity Conversion Mortgages (HECM). The Mortgagee must fully comply with all of the following standards and procedures when servicing a Mortgage insured by the Federal Housing Administration (FHA).

1. Servicing of FHA-Insured Mortgages

Only FHA-approved Mortgagees may service FHA-insured Mortgages. Mortgagees may service Mortgages they hold or that are held by other FHA-approved Mortgagees.

a. Servicing Roles and Responsibilities (10/01/2025)

i. Definitions

The Mortgage Holder is the entity who holds title to the FHA-insured Mortgage and has the right to enforce the mortgage agreement.

The Mortgage Servicer (Servicer) is the entity responsible for performing servicing actions on FHA-insured Mortgages on its behalf or on behalf of or at the direction of another FHA-approved Mortgagee.

ii. Standard

Mortgage Holders must ensure all FHA-insured Mortgages are serviced by a Servicer in accordance with FHA requirements and all applicable laws.

Servicers must service all FHA-insured Mortgages in accordance with FHA requirements and all applicable laws.

(A) Laws and Requirements Applicable to Mortgage Servicing

Mortgagees must comply with all laws, rules, and requirements applicable to mortgage servicing, including full compliance with the applicable requirements under the purview of the Consumer Financial Protection Bureau (CFPB), including the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA), and, if applicable, Ginnie Mae's mortgage-backed securities requirements.

(B) Contract Terms

Where mortgage contract terms are more stringent or restrictive than those provided for in applicable law, the Mortgagee must comply with the mortgage contract terms.

(C) Nondiscrimination Policy

Mortgagees must comply with all antidiscrimination laws, rules, and requirements applicable to servicing performing FHA-insured Mortgages and FHA-insured Mortgages in Default, including full compliance with the applicable requirements of:

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), 15 U.S.C. §§ 1681a–1681x; and
- the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691a–1691f.

The Mortgagee must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner that does not discriminate because of the race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because an applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of the Property.

b. Responsibility for Servicing Actions (10/01/2025)

Mortgage Holders are responsible for all servicing actions, including the acts of its Servicers.

Servicers are responsible for their actions in servicing FHA-insured Mortgages, Partial Claim Subordinate Mortgages, and Payment Supplement Subordinate Mortgages. The Servicer is also responsible for actions taken at the direction, or on behalf, of the Mortgage Holder.

The costs associated with subservicing may not be imposed on the Borrower or passed along to HUD in a claim for mortgage insurance benefits.

i. Responsibility during Transfers of Servicing Rights

(A) Definitions

The Transferor Servicing Mortgagee is the Mortgage Servicer that transfers servicing responsibilities.

The Transferee Servicing Mortgagee is the Mortgage Servicer to which the servicing responsibilities have been transferred.

The Transfer Date is the date on which the Borrower's Mortgage Payment is first due to the Transferee Servicing Mortgagee.

(B) Standard

The Transferor Servicing Mortgagee remains responsible for the servicing of an FHA-insured Mortgage, any Payment Supplement(s), and any Partial Claim(s) before the Partial Claim documents have been recorded and delivered to HUD until the Transfer Date. The Transferor Servicing Mortgagee:

- must verify that the change of legal rights to service has been reported accurately; and

- may transfer the Borrower's language preference to the Transferee Servicing Mortgagee.

On the Transfer Date, the Transferee Servicing Mortgagee assumes responsibility for:

- all servicing actions, including:
  - ensuring resolution of any servicing errors that were, and remain, the responsibility of the Transferor Servicing Mortgagee;
  - where applicable, reporting the Delinquency/Default Status (DDS) Codes in HUD's Single Family Default Monitoring System (SFDMS);
- obtaining the complete mortgage file, including origination and servicing records;
- all servicing actions associated with any Partial Claim(s) and Payment Supplement(s), as required; and
- ensuring that the original Mortgages, mortgage Notes, or deeds of trust are preserved.

The Transferee Servicing Mortgagee must also ensure transfer of any outstanding Payment Supplement Account and associated servicing records. Where applicable, on the Transfer Date, the Transferee Servicing Mortgagee assumes responsibility for:

- all servicing actions associated with the Payment Supplement, including but not limited to:
  - accounting of funds held in the Payment Supplement Account related to a Borrower's Payment Supplement; and
  - administration of the Borrower's Payment Supplement;
- obtaining the complete files relating to the Payment Supplement; and
- obtaining any outstanding funds in the Payment Supplement Account.

(C) Required Documentation

The Transferor Servicing Mortgagee must report the Transfer Date and update the mortgage record in FHA Connection (FHAC) or by Electronic Data Interchange (EDI) or Business to Government (B2G) within 15 Days of the Transfer Date.

ii. Responsibility for Servicing when the Mortgage is Sold

(A) Definition

A Mortgage Sale is a transaction in which a Mortgage Holder sells the Mortgage to another FHA-approved Mortgagee.

The Selling Mortgage Holder or Selling Mortgagee is the Mortgagee that sells the Mortgage and thereby relinquishes all rights and obligations under the contract for mortgage insurance.

The Purchasing Mortgage Holder or Purchasing Mortgagee is the Mortgagee that purchases the Mortgage and thereby succeeds to all rights and obligations of the Selling Mortgage Holder under the contract for mortgage insurance.

(B) Standard

The Selling Mortgage Holder relinquishes all rights and obligations under the contract for mortgage insurance on the effective date of the sale. The Selling Mortgage Holder remains responsible for Mortgage Insurance Premiums (MIP) until notice of the sale is received by HUD via FHAC, EDI, or B2G.

As of the effective date of the sale, the Purchasing Mortgage Holder becomes responsible for outstanding MIP obligations, regardless of the date of accrual, and must confirm that the details of the Mortgage Sale have been reported accurately.

(C) Required Documentation

The Selling Mortgage Holder must report the effective date of the Mortgage Sale as the Transfer Date and update the mortgage record in FHAC or by EDI or B2G within 15 Days of the date of the Mortgage Sale.

iii. Registration with Mortgage Electronic Registration System, Inc.

(A) Definition

The Mortgage Electronic Registration System (MERS) is an electronic tracking system identified as nominee for a holder of a Mortgage.

(B) Standard

Mortgagees may voluntarily register FHA-insured Mortgages with MERS. The holder remains responsible for all servicing actions.

c. Providing Information to HUD and HUD-Approved Counseling Agencies (10/01/2025)

The Mortgagee must respond to verbal or written requests for individual account information, including all servicing information and related data and the mortgage origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the Borrower.

When HUD staff request information, the Mortgagee must make available legible documents in the format (electronic or hard copy) requested within 24 hours of the request, or as otherwise permitted by HUD.

When a HUD-approved counseling agency acting with the consent of the Borrower requests information, the Mortgagee must make available legible documents in the format (electronic or hard copy) requested within three business days of the request.

d. Communication with Borrowers and Authorized Third Parties (03/31/2022)

i. Definition

Authorized Third Parties are parties who are not Borrowers on the Mortgage but who are authorized to communicate with Mortgagees regarding a Mortgage.

ii. Standard

The Mortgagee must provide mortgage information and arrange for individual consultation with the Borrower and/or the Authorized Third Party, upon request by the Borrowers.

The Mortgagee must comply with all laws, rules, and requirements applicable to third-party access to mortgage information.

iii. Required Documentation

If communicating with an Authorized Third Party, the Mortgagee must include documentation of the authorization in the servicing binder:

- a copy of a signed authorization from the Borrower;
- a copy of a Power of Attorney (POA), order of guardianship, or other documentation authorizing that third party to act on behalf of the Borrower; or
- other documentation showing legal authorization to access the Borrower's records.

e. Payment Administration (10/01/2025)

i. Receipt of Payments

(A) Definition

A Trust Clearing Account refers to a fiduciary account containing Borrower funds that will be transferred by the Mortgagee to another account before the end of an accounting period.

(B) Standard

The Mortgagee must either use a Trust Clearing Account or special custodial account to hold all payments on the insured Mortgage.

The Mortgagee's Trust Clearing Account may be used for collections received on all types of Mortgages. If a Trust Clearing Account is not used, the Mortgagee must immediately transfer payments into a special custodial account.

ii. Application of Payments

Mortgagees using special custodial accounts must withdraw an amount equal to the principal, interest, and service charges within 30 Days after deposit and post to the Borrower's records accordingly.

The Mortgagee must apply Borrower payments in the following order:

- to MIPs due, if any;
- to charges for Ground Rents, taxes, special assessments, including any assessments related to a Property Assessed Clean Energy (PACE) obligation, flood insurance premiums, if required, and fire and other hazard insurance premiums;
- to interest on the Mortgage;
- to amortization of the principal of the Mortgage; and
- to Late Charges, provided, however, that any amounts owed for Late Charges must be handled consistent with applicable laws.

The Mortgagee may only apply funds for payments of optional insurance coverage premiums after the application of funds to the Principal, Interest, Taxes, and Insurance (PITI) of the monthly Mortgage Payment.

iii. Return of Partial Payments for Less than the Amount Due

(A) Definition

A Partial Payment is a payment of any amount less than the full amount due under the Mortgage at the time the payment is tendered, including Late Charges and amounts advanced by the Mortgagee on behalf of the Borrower.

(B) Standard

For performing Mortgages, the Mortgagee may return any Partial Payment to the Borrower with a letter of explanation.

(C) Required Documentation

The Mortgagee must note in its Servicing File any Partial Payments received and, if applicable, documentation on the date the payment was returned with a letter of explanation.

iv. Application of Partial Prepayments

(A) Definition

A Partial Prepayment is a payment of part of the principal amount before the date on which the principal is due.

An Advance Full Monthly Payment is the payment of an amount larger than the full monthly payment, equaling an additional full monthly payment.

(B) Standard

The Mortgagee must apply Partial Prepayments as requested by the Borrower as either:

- advance full monthly payments; or
- additional payments toward reducing principal and future monthly payments.

In the event that the Borrower does not specify how the Partial Prepayment should be applied, the Mortgagee must communicate with the Borrower to determine the method of application or apply the payment in a manner previously communicated to the Borrower.

If the Borrower elects to have Partial Prepayments equal to a full monthly payment applied as an advance full monthly payment, the Mortgagee must allow the Borrower to skip an equal number of installments in the future without creating a mortgage Default or incurring a Late Charge.

v. Prepayment

(A) Definitions

A Partial Prepayment is a payment of part of the principal amount before the date on which the principal is due.

A Prepayment in Full, or Payoff, is the payment in whole of the principal amount of the mortgage Note in advance of expiration of the term of the mortgage Note.

The Installment Due Date is the first Day of the month, as provided for in the security instrument.

(B) Standard

The Mortgagee must accept a prepayment of a Mortgage in whole or in part on any Installment Due Date without penalty to the Borrower.

(C) Prepayment Procedures

(1) Mortgages Closed on or after January 21, 2015

The Mortgagee must accept a prepayment on a Mortgage closed on or after January 21, 2015, at any time and in any amount. The Mortgagee must calculate the interest as of the date the prepayment is received, not as of the next Installment Due Date.

(2) Mortgages Closed before January 21, 2015

(a) Mortgages Insured on or after August 2, 1985

The Mortgagee must accept a prepayment on a Mortgage insured on or after August 2, 1985 and closed before January 21, 2015, if the Borrower prepays the Mortgage in full on the first Day of any month in the term of the Mortgage.

If prepayment is offered on a Day other than the Installment Due Date, the Mortgagee may:

- refuse to accept the prepayment until the first Day of the next month; or
- accept the prepayment and require the payment of interest to the first Day of the next month. For Prepayment in Full, this option may only be used if the Mortgagee has provided the Payoff Procedure Disclosure to the Borrower.

(b) Mortgages Insured Prior to August 2, 1985

(i) Definitions

Notice of Intent to Prepay refers to the advance notice that Borrowers on Mortgages insured before August 2, 1985, must provide in order to prepay their FHA-insured Mortgages in full without penalty.

The 30-Day Advance Prepayment Notice Period refers to the time requirement for the Borrower to provide advance notice to the Mortgagee for prepayment of an FHA-insured Mortgage insured prior to August 2, 1985.

(ii) Standard

The Mortgagee must accept prepayment on a Mortgage insured prior to August 2, 1985, if the Borrower:

- submits to the Mortgagee a Notice of Intent to Prepay at least 30 Days prior to the prepayment; and

- prepays the Mortgage in full on the first Day of any month in the term of the Mortgage.

If a prepayment is offered on a day other than the Installment Due Date, the Mortgagee may:

- refuse to accept the prepayment until the first Day of the month following the expiration of the 30-Day Advance Prepayment Notice Period; or
- accept prepayment and require the payment of interest to the first Day of the month following the expiration of the 30-Day Advance Prepayment Notice Period. For Prepayment in Full, this option may only be used if the Mortgagee has provided the Payoff Disclosure to the Borrower.

(iii) Borrower's Notice of Intent to Prepay

For Mortgages insured prior to August 2, 1985, the Borrower must send, and the Mortgagee must receive, the Borrower's Notice of Intent to Prepay at least 30 Days prior to prepayment.

If the Borrower submits a prepayment without previously sending a Borrower's Notice of Intent to Prepay, the Mortgagee may consider receipt of the prepayment as the Borrower's Notice of Intent to Prepay. The Mortgagee may choose to:

- provide a Payoff Disclosure, enabling the Mortgagee to:
  - defer acceptance of prepayment until the first Day of the month following the date prepayment is tendered; or
  - accept the prepayment and require the payment of interest to the first Day of the month following the date prepayment is tendered; or
- accept the prepayment on the date tendered, which limits the Mortgagee's collection of interest to that prepayment date.

(iv) Effective Dates for Notice of Intent to Prepay

The effective date of the Notice of Intent to Prepay is the date that the Notice was received by the Mortgagee, unless the Borrower can produce documentation showing that the Notice was received earlier. The 30-Day Advance Prepayment Notice Period required for Mortgages insured prior to August 2, 1985, begins on this date of receipt.

(c) Installment Due Date Falls on a Non-business Day

When the Installment Due Date falls on a non-business day, the Mortgagee must consider a Borrower's Notice of Intent to Prepay or the receipt of the

prepayment amount for a Mortgage closed before January 21, 2015 timely if received on the next business day.

(3) Payoff Disclosure Requirements

When notified of the Borrower's intent to prepay, the Mortgagee must send the Payoff Procedure Disclosure and copy of the payoff statement directly to the Borrower, even if the Mortgagee is dealing with an Authorized Third Party.

The Mortgagee will forfeit any interest collected after the date of prepayment if these disclosure requirements are not met.

(D) Trustee's Fee for Satisfactions

If specifically provided for in the security instrument, the Mortgagee may charge the Borrower the amount of the trustee's fee, plus any reasonable and customary fee for payment, or for the execution of a satisfaction, release or trustee's deed when the debt is paid in full.

(E) Recording Fees for Satisfactions

The Mortgagee may charge the Borrower a reasonable and customary fee for recording satisfactions in states where recordation is not the responsibility of the Mortgagee.

f. Servicing Fees and Charges (07/01/2025)

i. Definition

Allowable Fees and Charges are those costs associated with the servicing of the Mortgage that are permitted to be charged to the Borrower.

Prohibited Fees and Charges are those costs associated with the servicing of the Mortgage that may not be charged to the Borrower.

ii. Standard

(A) Reasonable and Customary Fees and Charges

The Mortgagee may collect certain fees and charges from the Borrower after the Mortgage is insured and as authorized by HUD below. All fees must be:

- reasonable and customary for the local jurisdiction;
- based on actual cost of the work performed or actual out-of-pocket expenses and not a percentage of either the face amount or the unpaid principal balance of the Mortgage; and
- within the maximum amount allowed by HUD, up to the amount listed in Appendix 3.0 – Post-endorsement Fees and Charges by Location.

(B) Prohibited Fees and Charges

The Mortgagee must not charge the Borrower for the following services:

- costs of telephone calls, certified mail, arranging and conducting the interview, or other activities that are normally considered a part of a prudent Mortgagee's servicing activity;
- preparing and providing evidence of Payoff, Reconveyance, or termination of the Mortgage;
- providing information essential to the Payoff;
- recording the Payoff of the Mortgage in states where recordation is the responsibility of the Mortgagee;
- fees for services performed by attorneys or trustees who are salaried members of the Mortgagee's staff; or
- Mortgagee's use of an independent contractor, such as services related to the interview or a tax service, to furnish tax data and information necessary to pay property taxes or make the payments on behalf of the Mortgagee.

iii. Required Documentation

The Mortgagee must include in the Servicing File:

- documentation of the amount of any fees and charges paid or payable by the Borrower; and
- documentation supporting the actual cost of any work performed or out-of-pocket expenses.

g. Escrow (10/01/2025)

i. Definition

An Escrow Account is a set of funds collected by the Mortgagee for payment of taxes, insurance, and other items required by the mortgage Note.

ii. Escrowing of Funds

(A) Standard

The Mortgagee must segregate escrow funds, including those funds escrowed at closing, and deposit the funds in a special custodial account characterized by the following:

- with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA);
- that does not limit the Mortgagee's access to funds, require an advance notice of withdrawal, or require the payment of a withdrawal penalty;
- that clearly identifies the type of funds being held in that account; and

- the Mortgagee may maintain a "cushion" that may not be increased beyond what is acceptable under RESPA regulations.

Mortgagees utilizing a Trust Clearing Account must withdraw the portion that is to be applied to escrows within 48 hours of the deposit and must transfer the portion to the escrow account for the Borrower's Mortgage.

Mortgagees are not prohibited from holding escrow funds for all types of Mortgages in a single bank account; however, the Mortgagee must not commingle escrow funds, even temporarily, with funds used for the Mortgagee's general operating purposes.

(B) Interest on Escrows

HUD regulations neither forbid nor require that escrow accounts earn interest.

However, if escrow funds are invested, the Mortgagee must pass on to the Borrower the net income derived from the investment in accordance with the following:

- The Mortgagee must make investments and payments in compliance with state and federal agency requirements governing the handling and payment of interest earned on a Borrower's escrow account.
- The Mortgagee may only deduct the actual cost of administering the interest-bearing account before passing on to the Borrower the net earnings from the investment of their funds.
- The Mortgagee may not charge the Borrower expenses for maintaining the interest-bearing escrow account in an amount exceeding the gross interest earned from investing the funds in that account.

(C) Items to be Escrowed

The Mortgagee must require that the Borrower's total Mortgage Payment includes escrow funds to provide for payment of property charges, the security instrument, and applicable law. Items to be escrowed include:

- real estate taxes;
- special assessments, including any assessments related to a PACE obligation;
- Hazard Insurance required by the Mortgagee;
- Flood Insurance as applicable;
- FHA MIP;
- Ground Rent, if any; and
- other items which can attain priority over the security instrument as a lien or encumbrance on the Property, other than Condominium or Homeowners' Association (HOA) Fees.

(D) Required Documentation

The Mortgagee must retain documentation of its holding of all escrow funds on deposit.

iii. Escrow Analysis

The Mortgagee must perform analysis, at least annually, of the escrow account to provide for adequate collections to pay escrow bills when due without creating excessive surpluses. The Mortgagee must begin these analyses no later than the end of the second year of the life of the Mortgage.

The Mortgagee must retain any escrow surplus discovered when performing the annual escrow account analysis for a Delinquent Mortgage pursuant to the terms of the mortgage documents and federal law and regulation, including RESPA.

iv. Processing Payments from Escrow Accounts

When making payments from escrow accounts, Mortgagees must:

- request a bill from the billing agency or a tax monitoring service indicating the property tax amount owed, if a bill has not been received within a reasonable amount of time before the payment due date;
- contact the Borrower, if necessary, to obtain the bill or the information needed to pay such bills if a bill is not received within a reasonable amount of time before the known payment due date;
- send payment directly to the billing agency or the taxing authority, as bills become payable, or as otherwise directed by state or local law; and
- make timely payments, even if making the payment requires advancing corporate funds when the escrow deposits are inadequate to meet these obligations.

The Mortgagee may contract with a tax service organization to manage the payment of taxes.

(A) Timeliness of Payments from Escrow Accounts

(1) Standard

The Mortgagee must ensure that all disbursements made on behalf of the Borrower are made as bills become payable.

If the Mortgagee fails to timely disburse escrow proceeds, the Mortgagee is prohibited from passing on to the Borrower any penalties resulting from the late payments unless:

- the late payment was the result of the Borrower's error or omission; and
- the Mortgagee attempted to obtain the billing information from the Borrower, billing agency, or the taxing authority in sufficient time to enable it to timely make the Disbursement.

(2) Required Documentation

The Mortgagee must document in its Servicing File its efforts to obtain the billing information from the Borrower, billing agency, the taxing authority, or a tax monitoring service indicating the property taxes status.

(B) Payment of Insurance Premiums

(1) Long-Term Policies

(a) Definition

Long-Term Policies refer to those insurance policies with terms of greater than one year.

(b) Standard

The Mortgagee may not reject Long-Term Policies if the carrier and amount are otherwise acceptable to the Mortgagee.

(c) Collecting Funds for Renewal Premiums

The Mortgagee may collect funds for renewal premiums on Long-Term Policies in the following ways:

- For renewal with the same policy term: the Mortgagee may immediately begin collecting a monthly amount calculated to make funds available 30 Days before the policy expires; or
- For renewal with a one-year term: the Mortgagee may defer collection of monthly escrows until 13 months before the expiration date of the policy then begin monthly collection of 1/12th of the renewal premium for a policy providing similar coverage.

The Mortgagee may require a Borrower requesting to renew for a longer term to make a lump sum deposit to escrow for the additional amount required to pay the renewal premium with the Mortgagee 30 Days before the expiration date of the present policy. If the additional deposit is not made, the Mortgagee may renew the policy for one year and continue to escrow as for a one-year policy.

(2) Optional Policies

(a) Standard

The Mortgagee may advance corporate funds when the escrow deposits are inadequate to meet obligations for payment of premiums for optional insurance coverage, but the Mortgagee must not charge against the escrow account any funds for these advances.

(i) Personal Property and Personal Liability Insurance

The Mortgagee must only escrow for the payment of Personal Property and personal liability insurance coverage premiums if:

- the Borrower has obtained Personal Property and personal liability insurance coverage not directly related to the mortgaged Property; and
- the premiums are combined with Hazard Insurance in one insurance premium payment.

(ii) Life Insurance and Disability Insurance

Mortgagees may not deposit premiums for life or disability insurance coverage in the same bank accounts as other escrow payments.

The Mortgagee must maintain separate records for these life or disability insurance coverage payments.

HUD does not require Mortgagees to itemize the Borrower's monthly contribution for life or disability coverage on payment coupons.

(b) Required Documentation

The Mortgagee must note on the initial and annual escrow statements any Borrower's discretionary payment made as part of a monthly Mortgage Payment for optional policies.

(3) Insurance Protecting Only the Mortgagee

The Mortgagee must not charge the Borrower any part of the cost of insurance coverage that does not benefit the Borrower.

v. Use of Escrow Funds

The Mortgagee must only use escrow funds for the purpose for which they were collected.

The Mortgagee must never deduct amounts from a Borrower's escrow account to pay the following:

- penalties for late payments not directly resulting from the Borrower's error or omission;
- attorney's fees incurred in foreclosure actions that are not completed;
- inspection fees; and
- Delinquent mortgages or refunds of overpaid subsidy.

h. Insurance Coverage Administration (10/01/2025)

i. Hazard Insurance

If the Mortgagee requires the Borrower to purchase Hazard Insurance, the Mortgagee must:

- allow Borrowers to choose their own hazard insurance company;
- be named as a "Loss Payee" on the hazard insurance policy; and
- escrow sufficient funds for the payment of a renewal premium.

(A) Payment of Renewal Premium

When the Mortgagee has required the Borrower to purchase Hazard Insurance, the Mortgagee must escrow for premium payments and pay renewal premiums by:

- remitting the renewal premium from available escrow funds; or
- where insufficient escrow funds exist, advancing corporate funds for the payment of the renewal premium.

The Mortgagee must not require more coverage than is necessary to protect its investment. The Mortgagee must escrow renewal premiums for the entire amount if the Borrower chooses to insure the Property for more than the minimum amount.

(B) Fee for Change in Hazard Insurance Policy

The Mortgagee may assess a reasonable and customary fee, up to the amount listed in Appendix 3.0 – Post-endorsement Fees and Charges by Location, for processing the Borrower's request to change hazard insurance coverage when the existing policy has not yet expired.

ii. Flood Insurance

(A) Standard

The Mortgagee must review all Properties annually to determine if the Property is located within a Special Flood Hazard Area (SFHA).

For Properties located within an SFHA that are required to carry Flood Insurance, the Mortgagee must:

- ensure that Flood Insurance is in force for the life of the Mortgage; and
- review annually that the Property carries sufficient Flood Insurance.

(B) Required Documentation

The Mortgagee must include updated Flood Insurance information for Properties where Flood Insurance is required in the Servicing and Claims File.

iii. Hazard or Flood Insurance Proceeds

(A) Insurance Claims

The Mortgagee must take necessary steps to ensure that hazard or flood insurance claims are filed and settled as expeditiously as possible.

(B) Loss Settlement Amounts for Borrower Expenses and Personal Property

The Mortgagee must promptly release to the Borrower all insurance settlement proceeds received for coverage of a Borrower's Personal Property, temporary housing, and other transition expenses. The Mortgagee may not withhold Disbursement of such proceeds to cover an existing arrearage without the written consent of the Borrower.

(C) Insurance Proceeds for Home Damage

(1) Definition

A Viable Repair Plan is a plan for repairs of a mortgaged Property within the amounts available through insurance proceeds and borrower funds.

(2) Standard

The Mortgagee must expedite the release of insurance proceeds for needed home repairs after approving a Viable Repair Plan.

(D) Application of Insurance Proceeds to Unpaid Principal Balance

The Mortgagee may only apply insurance proceeds payable for home damages to arrearages and/or reduction of the unpaid principal balance if:

- the amount of the proceeds exceeds the costs to repair the damages to the home; or
- the insurance proceeds are insufficient to repair the home damages based on a certified repair estimate, and the Borrower is unable to demonstrate that they have additional funds from other sources to complete the repairs.

iv. Optional Policies

(A) Personal Property and Personal Liability Insurance

The Mortgagee may allow the Borrower to add Personal Property and personal liability insurance premiums to their monthly payments.

(B) Life or Disability or Optional Coverage Income Policies

The Mortgagee must clearly separate the collection of unpaid optional coverage premiums from the collection of any unpaid Mortgage Payment. If the payment does

not include all or a part of an optional coverage premium, the Mortgagee may not treat the failure to pay as a failure to pay a part of the Mortgage Payment.

i. Mortgage Insurance Premium Remittance (03/31/2022)

i. Definition

Annual or Periodic MIPs are those MIPs that are remitted to HUD each month.

ii. Standard

The Mortgagee must remit one-twelfth of the annual MIPs each month to HUD, regardless of whether it was received from the Borrower. The Mortgagee can access the Advance Premium Notice and case-level billing information in FHAC to determine monthly collections of MIPs.

The Mortgagee must remit MIPs in accordance with the original amortization schedule. MIPs accrue from the beginning of amortization, without regard to what time frame exists between endorsement and the beginning of amortization and without regard to any Partial Prepayments, Delinquent payments, agreements to postpone payments, or agreements to recast the Mortgage.

For refinances, the Mortgagee must remit MIPs on the Mortgage being paid off through the month in which that Mortgage is paid in full.

iii. Mortgage Insurance Premium Reports

(A) Use of FHA Connection or Alternate Report Retrieval Process

The Mortgagee can access the Advance Premium Notice and case-level billing information in FHAC or through the Alternate Report Retrieval process to determine monthly collections of MIPs after endorsement.

(B) Reports after Transfer or Sale

If, 90 Days after acquisition, a transferred or sold Mortgage has not appeared on HUD's monthly MIP report to the Transferee Servicing Mortgagee or Purchasing Mortgage Holder, that Mortgagee must ensure that the Servicer/Holder Transfer is completed in FHAC or through EDI or B2G.

j. Post-endorsement Mortgage Amendments (12/30/2025)

i. Definition

A Post-endorsement Mortgage Amendment is a change to the mortgage instruments, the nature of the obligation, or the security after the Mortgage has been insured.

ii. Modifying a Performing Mortgage

(A) Modification without HUD Approval

The Mortgagee may modify a performing Mortgage without HUD approval when:

- the modification is only for a reduction of the interest rate;
- the mortgage term is decreased and the Principal and Interest (P&I) will be increased $100 or less per month; or
- the mortgage term is decreased and the Mortgage is more than three years old.

(B) Modification Requiring HUD Approval

The Mortgagee must request and receive approval from HUD prior to modifying a performing Mortgage when the mortgage term is decreased and:

- the P&I will increase over $100 per month; or
- the Mortgage is three years old or less.

The Mortgagee may modify the Mortgage to decrease the mortgage term by increasing the Mortgage Payment so long as all of the following conditions are met:

- The Mortgagee has received HUD approval.
- The Mortgage is current and the Borrower's payment history is satisfactory to the Mortgagee.
- The Mortgagee has determined that the higher Mortgage Payment is within the Borrowers' ability to pay under the underwriting standards in Origination through Post-closing/Endorsement.
- The modification agreement contains a clause permitting reversion to original mortgage terms if reversion can salvage a Delinquent account and prevent foreclosure.
- The modification agreement contains a certification by the Borrowers stating that they are aware of the positive and negative aspects of the modification and that they have voluntarily agreed to the increased payments.

(C) Principal Amount of Modified Performing Mortgage

The new principal amount of the modified Mortgage is the total unpaid amount due and payable under the original Mortgage. The Mortgagee may not include the following in the new principal amount:

- any revision of periodic MIP payments; and
- any legal or administrative costs attributable to the modification (these costs may be collected separately from the Borrower).

(D) Recordation of Lien

The Mortgagee must perform the legal steps required to accomplish the modification and must ensure that the Mortgage remains a valid first lien against the Property.

(E) Fee for Modification of Performing Mortgage

The Mortgagee may charge the Borrower a reasonable and customary fee for processing and recording a modification of a performing Mortgage when not modified under HUD's Loss Mitigation Program.

The Mortgagee may not file an incentive claim for modifying a performing Mortgage.

(F) Reporting to HUD

The Mortgagee must report mortgage characteristics for all modifications through FHAC or FHA Catalyst.

(G) Required Documentation

When modifying a performing Mortgage, the Mortgagee must retain the following in their Servicing Files:

- a mortgage modification document, in the form of:
  - an amended original Note, with all changes initialed by all parties; or
  - a modification agreement executed by all parties;
- documentation evidencing that criteria for modifying the Mortgage with or without HUD approval, as appropriate, were met;
- documentation showing calculations of the modified principal amount and the new monthly payment amount; and
- proof that any unpaid escrow added to the new principal amount was credited to the Borrower's escrow account.

iii. Partial Releases, Easements, or Modification of Security

(A) Partial Releases from Condemnation Not Requiring HUD Approval

(1) Standard

The Mortgagee may execute a partial release of security without HUD approval if the partial release results from condemnation and all of the following conditions are met:

- the portion of the Property being conveyed does not exceed 10 percent of the area of the mortgaged Property;
- there is no damage to existing Structures or other improvements;
- there is no unrepaired damage to sewer, water, or paving;
- the Mortgagee has applied all of the payment received as compensation for the taking of the Property to reduce the unpaid principal balance of the Mortgage; and
- the government action requiring conveyance occurs after insurance of the Mortgage.

(2) Required Documentation

(a) Claim File

If the Mortgagee files a claim for mortgage insurance benefits, the Mortgagee must submit a certification that the requirements for partial releases of security as a result of condemnation have been met and retain a copy of the certification in the Claim File.

(b) Reporting to HUD

The Mortgagee must notify the Appropriate Homeownership Center (HOC) of the release by letter within 30 Days of the Mortgagee's signing of the release.

(B) Partial Releases, Easements, or Modification of Security Requiring HUD Approval

(1) Definition

Partial Release or Modification of Security is the conveyance, assignment, transfer, pledge, or encumbrance of any part of the mortgaged Property or any interest in the mortgaged Property other than a Partial Release from Condemnation Not Requiring HUD Approval or other title exceptions covered under the general waiver. The partial release or modification of security may be a:

- partial release;
- condemnation;
- order of taking;
- subordination or consent to Easement;
- lot line dispute/adjustment/land exchange;
- subdivision consent;
- aviation easement; or
- consent to change in covenants and restrictions.

(2) Request Process

The Mortgagee must obtain HUD approval for any partial release or modification of security. The Mortgagee must send the following to HUD for the Property:

- a request containing the following information:
  - whether or not the Mortgage is in good standing;
  - the amount of the outstanding principal balance;
  - the due date of the last unpaid installment;
  - if the Mortgage is Delinquent, the number of Delinquent payments;
  - a list of unpaid special assessments, if any, and the total amount payable;
  - a complete legal description of the Property to be released or modified;

  - the Borrower's reasons for requesting that the Mortgagee make the partial release or modification of security, including how the land to be released or modified will be used;
  - the monetary consideration, if any, to be received by the Borrower;
  - the amount of a prepayment, if any, to the mortgage principal;
  - any restrictions to be imposed on the land to be released or modified; and
  - the case number of the mortgaged Property;
- a survey or sketch of the Property showing:
  - the dimensions of the portion to be released or modified;
  - the location of existing and proposed improvements; and
  - the relation of the Property to surrounding properties;
- plans and specifications, including Cost Estimates of any alterations proposed for the remaining Property after the release or modification; and
- a valid FHA appraisal that reflects:
  - the value before the partial release or modification of security; and
  - the value of the remaining Property after the partial release or modification of security.

(3) HUD Review

HUD will process the request for the partial release or modification of security and notify the Mortgagee of the approval or denial in writing.

(4) Required Documentation

The Mortgagee must retain a copy of HUD's approval or denial in the Servicing File.

(C) Fees

The Mortgagee may charge the Borrower reasonable and customary fees, up to the amounts listed in Appendix 3.0 – Post-endorsement Fees and Charges by Location, involved in processing Partial Releases from Condemnation Not Requiring HUD Approval or a Partial Release, Easements, or Modification of Security Requiring HUD Approval.

iv. Change of Location of Dwelling or Improvements

(A) Relocation Requiring HUD Approval

(1) Request to HUD

Except in the emergency situations described in Emergency Relocation Not Requiring HUD Approval, the Mortgagee must obtain HUD approval prior to relocation. The Mortgagee must submit the following to the FHA Resource Center at answers@hud.gov:

- the Mortgagee's request for a change in improvement location; and
- supporting documentation, including architectural exhibits, a copy of the permit, and a description of materials.

HUD will analyze the request and notify the Mortgagee of the approval or denial of the request.

(2) Relocation Requirements

The Mortgagee must ensure that relocations are performed as follows:

- the Mortgagee obtains a valid first lien on the new lot;
- the lien of the insured Mortgage has been extended to cover the new lot and the old lot has or has not been released from the lien, as appropriate;
- all damages to the Structure before, during, or after the relocation are repaired without cost to HUD; and
- the new lot is in an area known to be reasonably free from natural hazards or, if in an SFHA, the community participates in the National Flood Insurance Program (NFIP) and the Property will be insured against floods.

(3) Required Documentation

The Mortgagee must retain a copy of HUD's approval or denial in the Servicing File.

After the move has been completed and the appropriate substitute documents have been recorded, the Mortgagee must forward to HUD any documentation regarding the changes in the nature of the lien and retain copies in the Servicing File.

(B) Emergency Relocation Not Requiring HUD Approval

(1) Permanent Relocation

(a) Standard

The Mortgagee may consent to the relocation of existing improvements in emergency situations, where immediate action must be taken to preserve the safety of the occupants and/or the undamaged condition of the existing improvements, without HUD approval.

(b) Notification to HUD of Completed Permanent Relocation

The Mortgagee must notify HUD within 30 Days of the completed permanent relocation and submit a supplementary case binder containing supporting documentation for the change in improvement location.

The Mortgagee must include the following in its notification of the completion of the permanent relocation:

- the FHA case number of the mortgaged Property;
- the address and legal description of the lot of the improvement's previous location and the address and legal description of the new permanent location;
- a statement that HUD regulatory requirements have been met;
- a statement that the original Note is in full force and effect; and
- the outstanding balance of the insured Mortgage, and, if Delinquent, the number of payments, the dollar amount of the delinquency, and an explanation of how the delinquency is expected to be cured.

(c) Required Documentation

The Mortgagee must retain in the Servicing File a copy of its notification of the completion of the permanent relocation.

(2) Temporary Relocation

(a) Standard

When a temporary move becomes necessary, the Mortgagee may consult HUD before the move, for written assurance that the mortgage insurance will not be affected adversely during the move.

All damages to the Structure before, during, or after the relocation have been or will be repaired without cost to HUD.

(b) Notification to HUD of Completed Temporary Relocation

Within 30 Days of the completion of the temporary relocation, the Mortgagee must submit written notification to HUD, advising that the temporary relocation has been completed. This notification must include the following:

- the FHA case number of the mortgaged Property;
- the address and legal description of the lot of the improvement's previous location and the address and legal description of the new temporary lot; and
- a statement that:
  - the move to the temporary lot has been accomplished; and
  - any damage caused by the temporary move has been or will be repaired at no cost to HUD.

(c) Required Documentation

The Mortgagee must retain in the Servicing File a copy of the notification to HUD of completed temporary relocation.

v. Adding Borrowers to a Mortgage

Any Borrower added to a Mortgage must have a valid SSN or EIN or meet the eligibility requirement exception regarding social security numbers.

k. Mortgage Insurance Premium Cancellation (09/26/2022)

i. Definition

MIP Cancellation is the end of the obligation to remit the FHA MIPs to HUD on an FHA-insured Mortgage closed on or after January 1, 2001 and assigned a case number before June 3, 2013.

ii. Standard

The policies in this section apply only to FHA-insured Mortgages that:

- closed on or after January 1, 2001; and
- have a case number assignment before June 3, 2013.

HUD automatically cancels FHA MIPs under the conditions set forth below. The Loan-to-Value (LTV) ratio is based on the principal balance excluding Upfront MIP (UFMIP). The FHA contract of insurance remains in force for the Mortgage's full term, unless otherwise terminated.

HUD will not consider new appraised values in calculating if the Borrower has reached the required LTV ratio necessary for annual MIP cancellation.

HUD bases the cancellation of the annual MIP on the initial amortization schedule. In cases where Mortgage Payments have been accelerated or modified, HUD may base cancellation on the actual amortization of the Mortgage as provided to HUD by the servicing Mortgagee.

(A) Mortgage Term of More Than 15 Years

For Mortgages with terms more than 15 years, HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of the lesser of the initial sales price or appraised value at origination, provided the Borrower has paid the annual MIP for at least five years.

(B) Mortgage Term 15 Years or Less and LTV Ratio of Greater than 90 Percent with Case Numbers Assigned on and after July 14, 2008, and before June 3, 2013

HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of the lesser of the initial sales price or appraised value at origination regardless of the length of time the Borrower has paid the annual MIP for Mortgages that:

- have terms 15 years or less;

- have a case number assigned on and after July 14, 2008, and before June 3, 2013; and
- have LTV ratios greater than 90 percent.

(C) Mortgage Term 15 Years or Less and LTV Ratio of 90 Percent and Greater, Closed on or after January 1, 2001, and with Case Numbers Assigned before July 14, 2008

HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of the lesser of the initial sales price or appraised value regardless of the length of time the Borrower has paid the annual MIP for Mortgages that:

- have terms 15 years or less;
- closed on or after January 1, 2001, but have their case number assigned before July 14, 2008; and
- have LTV ratios of 90 percent or greater.

(D) Mortgage Term 15 Years or Less and LTV Ratio Greater than 78 percent but Equal to or Less Than 90 Percent

HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of the lesser of the initial sales price or appraised value at origination regardless of the length of time the Borrower has paid the annual MIP for Mortgages that:

- have terms 15 years or less;
- have case numbers assigned on or after April 18, 2011; and
- have LTV ratios of greater than 78 percent but equal to or less than 90 percent.

HUD does not charge annual MIP for Mortgages that:

- have terms 15 years or less; have a case assigned on or after April 18, 2011, but before June 3, 2013; and have LTV ratios of 78 percent or less;
- have terms 15 years or less; have a case number assigned on or after July 14, 2008 but before April 18, 2011; and have LTV ratios of 90 percent or less; or
- have terms 15 years or less; closed on or after January 1, 2001 and have a case number assigned before July 14, 2008; and have LTV ratios of less than 90 percent.

(E) Borrower-Initiated Cancellation of MIP

A Borrower who meets the following requirements may request cancellation of the collection of annual MIPs through their Mortgagee when:

- the Borrower has reached the 78 percent threshold in advance of the scheduled amortization due to Borrower prepayments to the principal, but not sooner than five years from the date of origination, except for 15-year term Mortgages; and
- the Borrower has not been more than 30 Days Delinquent on the Mortgage during the previous 12 months.

As part of the Mortgagee's annual disclosures to Borrowers, Mortgagees must notify Borrowers of their option to cancel the annual MIP in advance of the projected amortization date by making additional payments of mortgage principal.

(F) Processing MIP Cancellation

The Mortgagee must process the MIP cancellation using the Monthly MIP cancellation function in FHAC.

iii. Cancellation of MIP on Mortgages with Case Numbers Assigned on or after June 3, 2013

For Mortgages with FHA case numbers assigned on or after June 3, 2013, HUD automatically cancels FHA MIP as stated in Appendix 1.0 – Mortgage Insurance Premiums.

iv. Distributive Shares

(A) Definition

A Distributive Share is a share of any excess earnings from the Mutual Mortgage Insurance Fund (MMIF) that may be distributed to a Borrower after mortgage insurance termination.

(B) Payment of Distributive Shares

At HUD's discretion, HUD may pay Distributive Shares when mortgage insurance is terminated. Upon termination of the FHA mortgage insurance of a Mortgage, HUD will determine if Distributive Shares are available.

HUD is not liable for unpaid Distributive Shares that remain unclaimed six years from the date notification was first sent to the Borrower's last known address.

l. Mortgage Insurance Termination (03/31/2022)

i. Definition

A Mortgage Insurance Termination is the ending of FHA Single Family mortgage insurance at which time the Mortgagee's obligation to remit MIP to HUD ends. Upon termination, the Borrower and Mortgagee will enjoy only those rights, if any, to which they would be entitled under the National Housing Act if the insurance contract terminated as a result of the insured Mortgage being paid in full.

ii. Standard

(A) Termination of Mortgage Insurance

HUD terminates the FHA insurance contract as follows:

- automatically when the Mortgage reaches maturity; or
- when the Mortgagee reports a termination code, such as:
  - prepayment (Borrower paid the Mortgage in full before the maturity date);
  - use of Home Disposition Option or non-conveyance foreclosure (the Property was acquired by a Mortgagee or third party at a foreclosure sale or was redeemed after foreclosure and no insurance claim or Claims Without Conveyance of Title (CWCOT) will be submitted to HUD);
  - conveyance for insurance benefits; or
  - voluntary termination (both the Mortgagee and Borrower agreed to voluntarily terminate FHA insurance).

The Mortgagee must report termination of a case to HUD via FHAC, B2G, or EDI within 15 Days of the actual event.

(B) Voluntary Termination of Mortgage Insurance

(1) Definition

A Voluntary Termination of Mortgage Insurance is when the Secretary, upon the mutual request of the Borrower and Mortgagee, terminates the FHA insurance contract associated with the Mortgage.

(2) Standard

The Borrower and the Mortgagee may agree to voluntarily terminate FHA mortgage insurance in accordance with Section 229 of the National Housing Act (12 U.S.C. § 1715(t)). A voluntary termination has the same effect on the Borrower and Mortgagee as a termination for payment in full.

(a) Borrower's Consent to Voluntary Termination

The Mortgagee must obtain a signed Borrower's Consent to Voluntary Termination of FHA Mortgage Insurance from each Borrower on the Mortgage.

(b) Effect of Voluntary Termination on Outstanding Partial Claims

Upon receipt of a Borrower's request for a voluntary termination, the Mortgagee must advise the Borrower that the Partial Claim promissory Note and Subordinate Mortgage amounts owed by the Borrower will become immediately due and payable upon termination if provided for under the terms of the Borrower's Partial Claim promissory Note.

(c) Request for Voluntary Termination

To request voluntary termination, the Mortgagee must:

- submit the request for voluntary termination of mortgage insurance in FHAC within 15 Days of receiving the executed Borrower's Consent form. On the Mortgage Record Changes menu, select Insurance Termination (form HUD-27050-A, *Insurance Termination*) and select Voluntary Termination (Term Type 21); and
- certify in FHAC that all Borrowers on the Mortgage have signed the consent form.

(C) Effective Date of Termination

(1) Standard

The effective date of termination of the contract of insurance is the last Day of the month in which one of the following occur:

- the date a voluntary termination request is received by the Commissioner;
- the date the Mortgage was prepaid; or
- where the Mortgagee notifies the Commissioner that a claim will not be filed, the date foreclosure proceedings were initiated or the Property was acquired by another party, including the Mortgagee.

(2) Required Documentation

The Mortgagee must note in the Servicing File and report in FHAC, B2G, or EDI:

- the date on which the voluntary termination request is received by the Commissioner;
- the date notice is received by the Commissioner that the Mortgage was prepaid; or
- the date notice is received by the Commissioner that a claim will not be filed, or that the Property will not be conveyed.

For FHA-to-FHA refinances, the Mortgagee processing the new refinance must report the projected and actual Closing Date.

(D) MIP Due until Effective Date of Termination

The Mortgagee is obligated to pay the MIP due until the effective date of termination.

(E) Escrow Balance Returned to Borrower

If no claim for insurance benefits will be filed, the Mortgagee must timely release the funds held in escrow in accordance with federal regulations, including RESPA, after the termination of the FHA-insured Mortgage.

m. Disclosures (03/31/2022)

i. Statement of Escrow Account

At the Borrower's request, the Mortgagee must promptly furnish a statement of the escrow account in a clear and understandable form, with sufficient information to permit the Borrower to reconcile the account.

ii. Payoff Disclosure

(A) Definition

A Payoff Disclosure is a disclosure accompanying the payoff statement.

For Mortgages closed before January 21, 2015, Mortgagees must include a description of the procedures for prepayment of a Mortgage with the payoff statement.

(B) Standard

When notified of the Borrower's intent to prepay a Mortgage, the Mortgagee must send to the Borrower directly the Payoff Disclosure and copy of the payoff statement.

(C) Required Documentation

The Mortgagee must retain a copy of the Payoff Disclosure in the Servicing File.

iii. Annual Prepayment Disclosure Statements

(A) Definition

An Annual Prepayment Disclosure Statement is a statement of the amount outstanding on the Mortgage and, for Mortgages closed before January 21, 2015, the requirements that the Borrower must fulfill upon prepayment to prevent accrual of interest after the date of prepayment.

(B) Standard

The Mortgagee must send the Borrower a written Annual Prepayment Disclosure Statement on an annual basis.

(C) Required Documentation

The Mortgagee must retain a copy of the Annual Prepayment Disclosure Statement in the Servicing File.

iv. Statement for Income Tax Purposes

(A) Definition

The Statement for Income Tax Purposes is an Internal Revenue Service (IRS) Form 1098, *Mortgage Interest Statement,* or equivalent that provides documentation of taxes and interest paid by the Borrower during the preceding calendar year.

(B) Standard

The Mortgagee must provide the Borrower with a Statement for Income Tax Purposes by January 30 of each year.

(C) Required Documentation

The Mortgagee must retain a copy of each annual Statement for Income Tax Purposes in the Servicing File.

n. Record Retention – Servicing File (03/31/2022)

i. Definition

The Servicing File refers to the Mortgagee's record of all servicing activity on an FHA-insured Mortgage.

ii. Standard

Mortgagees must retain all Servicing Files for a minimum of seven years after the transfer or sale of the Mortgage or termination of mortgage insurance. The Mortgagee must maintain accurate records for each Mortgage serviced. In addition to the specific documentation requirements stated in this Handbook 4000.1, these records must include the following information:

- Mortgage origination and endorsement documentation, including copies of the following documents, if applicable:
  - the Conditional Commitment for insurance;
  - the *Firm Commitment*;
  - form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary;* and
  - the Mortgage Insurance Certificate (MIC);
- MIP payments made;
- all servicing actions, including resolution of any servicing errors;
- documentation related to any recovery of hazard insurance proceeds; and
- the FHA-insured Mortgages in the Mortgagee's portfolio and information on which Mortgages have been acquired, sold, paid in full, and voluntarily terminated.

The Mortgagee must also retain, in electronic and hard copy, the Mortgage, mortgage Note, deed of trust, or a lost note affidavit acceptable under state law, with the electronic copy marked "copy."

For cases for which a claim is filed, the Mortgagee must retain documentation in compliance with the Claim File section for at least seven years after the final claim or latest supplemental claim settlement date.

iii. Record Reconciliations

HUD may require Mortgagees to provide information evidencing reconciliation of Mortgagee records with HUD. This information may include identification, by Mortgage, of the following:

- amount of MIP due and paid to HUD by time period for each insured Mortgage;
- date insurance was terminated or servicing transferred, if applicable; and
- date servicing was acquired, for Mortgages acquired after September 1, 1982.

All Mortgagees must ensure that HUD's records accurately reflect the status of the Mortgage and both the correct Mortgage Holder and Servicer of record.

iv. Electronic Storage

Where retention of a hard copy or original document is not required, Mortgagees may use electronic storage methods for all servicing-related documents required in accordance with HUD regulations, handbooks, Mortgagee Letters, and notices.

Regardless, the Mortgagee must be able to make available to HUD in the format (electronic or hard copy) requested legible documents within 24 hours of a request or as otherwise prescribed by HUD.

2. Default Servicing

a. Mortgages in Delinquency or Default (03/31/2022)

i. Definitions

A Mortgage is Delinquent any time a Mortgage Payment is due and not paid.

A Mortgage is in Default when the Borrower fails to make any payment or perform any other obligation under the Mortgage, and such failure continues for a period of 30 Days.

The date of Default is 30 Days after:

- the first uncorrected failure to perform any obligation under the Mortgage; or
- the first failure to make a monthly payment which subsequent payments by the Borrower are insufficient to cover when applied to the overdue monthly payments in the order in which they become due.

ii. Standard

The Mortgagee must ensure FHA-insured Mortgages in Delinquency or Default are serviced in accordance with FHA requirements and applicable laws.

For the purpose of determining the date of Default and timelines related to Default, HUD considers all months to have 30 Days.

b. Reporting to Consumer Reporting Agencies and the IRS (03/31/2022)

The Mortgagee is responsible for:

- complying with applicable law and federal regulations relating to reporting to consumer reporting agencies; and
- ensuring that all reported information is accurate.

The Mortgagee is also responsible for any required IRS reporting regarding acquisition of secured Property or cancellation of mortgage debt, in accordance with the Internal Revenue Code (IRC).

c. Late Charges (10/01/2025)

i. Definition

Late Charges are charges assessed if a Mortgage Payment is received more than 15 Days after the due date.

ii. Standard

The Mortgagee may consider a Borrower's Mortgage Payment late if the payment is received by the Mortgagee more than 15 Days after the due date, except for payments received from Borrowers in accordance with a Trial Payment Plan Agreement. The Mortgagee may assess a late charge on the 17th Day.

For Mortgages assigned a case number on or after March 14, 2016, the Mortgagee may assess a Late Charge, not to exceed 4 percent of the overdue payment of Principal and Interest (P&I) and in accordance with applicable state and federal laws.

For Mortgages assigned a case number before March 14, 2016, the Mortgagee may assess a Late Charge calculated based on overdue PITI if permitted under the terms of the mortgage Note and under applicable state and federal laws.

(A) Notifying the Borrower of the Late Charge

Before collecting the Late Charge or returning a Mortgage Payment to the Borrower for failing to pay the Late Charge, the Mortgagee must provide the Borrower with an advance written notice of the charge.

The Mortgagee must include in the advance notice the following information:

- the due date of the monthly Mortgage Payment;
- the amount of the regular monthly Mortgage Payment;
- the date on which the Late Charge will be imposed; and
- the amount of the Late Charge (or the full amount now due which consists of the regular monthly Mortgage Payment plus the Late Charge amount).

(B) Application of Subsequent Payment to Unpaid Late Charges

After advance notice has been sent to the Borrower, the Mortgagee may:

- treat any subsequent payment that does not include the Late Charge in accordance with HUD's Partial Payments for Mortgages in Default section; and
- deduct amounts due for Late Charges owed for a previous installment.

(C) Default/Foreclosure Due to Unpaid Late Charges

A Mortgage may be technically in Default by its terms if a Late Charge is not paid within 30 Days after it becomes due. However, the Mortgagee may not initiate foreclosure action when the only delinquency is due to:

- unpaid Late Charges that are due on the account; and/or
- unpaid monthly payments that remain unpaid because the Mortgagee did not comply with HUD's Partial Payments for Mortgages in Default section.

iii. Required Documentation

The Mortgagee must ensure that the Servicing File reflects any Late Charges assessed and includes any advance written notice of such charges sent to the Borrower.

d. Partial Payments for Mortgages in Default (11/10/2026)

i. Acceptance of Partial Payments

Unless subject to the exceptions in the Return of Partial Payments for Mortgage in Default section, the Mortgagee must accept any Partial Payment and either:

- apply the payment to the Borrower's account; or
- identify the payment with the Borrower's account and hold the payment in a suspense account. When a full monthly installment due under the Mortgage is accumulated, the Mortgagee must apply that amount to the Borrower's account.

ii. Application of Partial Payments Totaling a Full Monthly Payment [Text was deleted in this section.]

(A) Standard

When Partial Payments held for disposition total a full monthly Mortgage Payment, the Mortgagee must apply Borrower payments, in the following order, to:

- MIPs due, if any;
- charges for Ground Rents, taxes, special assessments, including any assessments related to a PACE obligation, flood insurance premiums, if required, and fire and other hazard insurance premiums;
- interest on the Mortgage;
- amortization of the principal of the Mortgage; and
- Late Charges, provided that any amounts owed for Late Charges must be handled consistent with Truth in Lending Act (TILA) regulations.

This application of Partial Payments as a full monthly installment advances the date of the oldest unpaid installment.

(B) Required Documentation

When applying Partial Payments totaling a full monthly Mortgage Payment, the Mortgagee must:

- report the appropriate Status Code in the Single Family Default Monitoring System (SFDMS); and
- advance the Oldest Unpaid Installment (OUI) date one month.

iii. Return of Partial Payments for Mortgages in Default

(A) Standard

If the Mortgage is in Default, the Mortgagee may return the Partial Payment to the Borrower with a letter of explanation only under the following circumstances:

- when the payment represents less than half of the full amount due under the terms of the Mortgage, including Late Charges, at the time the payment is tendered;
- when the payment is less than the amount agreed to in a Forbearance or Repayment Plan;
- when the payment is less than the amount stated in an approved Trial Payment Plan (TPP) Agreement;
- when the Property is occupied by a rent-paying tenant and the rents are not being applied to the Mortgage Payments;
- when the first legal action to initiate foreclosure has been completed; or
- when it is 14 Days or more after the Mortgagee has mailed the Borrower a statement of the full amount due, including Late Charges, which advises that it intends to refuse to accept future Partial Payments (see Application of Subsequent Payment to Unpaid Late Charges), and either of the following conditions have occurred:
  - four or more full monthly installments are due but unpaid; or
  - a delinquency of any amount, including Late Charges, has continued for at least six months since the account first became Delinquent.

(B) Required Documentation

The Mortgagee must ensure that its Servicing File reflects any Partial Payments returned to the Borrower and includes any letters of explanation for the returned payments.

e. Lien Status (10/01/2025)

The Mortgagee must preserve the first lien status of the FHA-insured Mortgage. HUD will not pay a claim on a Mortgage that is not in first priority position.

f. Imminent Default (10/01/2025)

i. Definition

A Borrower facing Imminent Default is defined as a Borrower who is current or less than 30 Days past due on their Mortgage Payment and is experiencing a reduction in income or other hardship that will prevent them from making the next required Mortgage Payment during the month that it is due.

ii. Standard

The Mortgagee must obtain the documentation necessary to verify that the Borrower is experiencing a significant reduction in income or some other hardship that will prevent them from making the next required Mortgage Payment during the month that it is due.

The Mortgagee must obtain, electronically or in hard copy, the following certification from the Borrower:

I am/We are experiencing a reduction in income or the following hardship(s) that will prevent me/us from making the next required Mortgage Payment due on _____ during the month that it is due:

_____

_____.

I/We, the undersigned, certify under penalty of perjury that the information provided above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to five years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).

iii. Required Documentation

The Mortgagee must document the basis for the determination that the Borrower's financial condition will result in a Default and the Borrower's certification in its Servicing File.

g. Early Default Intervention (10/01/2025)

The Mortgagee must determine the Borrower's ability to make monthly Mortgage Payments and take loss mitigation action or commence foreclosure, if loss mitigation is not feasible, within six months of the date of Default, or within such additional time approved by HUD via Extensions and Variances Automated Requests System (EVARS).

The Mortgagee must notify each Borrower, co-signer, and any other party requiring notice by state law that the Mortgage is in Default.

i. Delinquent Mortgage Identification

The Mortgagee must identify Delinquent Mortgages and their payment status to ensure appropriate servicing and collection actions are completed on a daily basis.

The Mortgagee must report the Delinquency/Default Status Codes that accurately reflect the severity of Default and Mortgagee action taken in SFDMS.

ii. Collection Communication Timeline

(A) Definition

The Collection Communication Timeline sets forth the servicing actions that Mortgagees must take when contacting a Borrower with a Delinquent Mortgage.

(B) Standard

The Mortgagee must perform in a timely manner the servicing actions set forth in the following Collection Communication Timeline.

Day	Mortgagee Action
1	Payment due date; no action required until the Mortgage becomes Delinquent.
10	The Mortgagee must begin attempts to contact Borrowers with a Delinquent Mortgage at risk of Early Payment Default or Re-Default in accordance with Specialized Collection Techniques for Early Payment Defaults and Re-Defaults.
25	The Mortgagee must begin attempts to contact Borrowers with a Delinquent Mortgage in accordance with Contact Efforts for Delinquent Borrowers.
31	The Mortgagee must report the delinquency to HUD via SFDMS.
32–45	The Mortgagee must send the following: • Notice of Homeownership Counseling Availability; and • *Servicemembers Civil Relief Act (SCRA) Notice Disclosure* (form HUD-92070).
32–60	The Mortgagee must send the following: • Delinquency Notice Cover Letter; and • *Save Your Home: Tips to Avoid Foreclosure* (form HUD-2008-5-FHA).

Day	Mortgagee Action
45	The Mortgagee should begin analysis to identify appropriate loss mitigation options, if any. If unable to reach the Borrower(s), the Mortgagee must perform an Occupancy Inspection.
61	The Mortgagee must conduct or make a reasonable effort to arrange the Interview with the Borrower no later than this date.
90	The Mortgagee must report the appropriate Default Reason Code for the Default in SFDMS. The Mortgagee must have evaluated all loss mitigation options to determine whether any are appropriate. The Mortgagee must reevaluate the Borrower for loss mitigation each month thereafter.

(C) Required Documentation

The Mortgagee must document in their Servicing File all communication efforts to reach the Borrower early in their delinquency.

iii. Communication Methods

(A) Selecting Best Method of Communication

The Mortgagee must use the method or methods of communication most likely to receive a response from each Borrower and consider the Borrower's expressed preference for using certain methods of communication.

The Mortgagee must effectively communicate with persons with hearing, visual, and other communications-related disabilities, including the use of auxiliary aids and services in accessible formats.

(B) Methods of Communication

The Mortgagee may use mail, certified mail, in person, any acceptable method of electronic communication, or telephone contact attempts to establish contact with the Borrower.

Acceptable methods of electronic communication that Mortgagees may use to contact the Borrower include:

- Voice over Internet Protocol (VoIP) or other technology that allows voice calls;
- interactive virtual communication methods;
- email;
- text messages;
- secure web portals (such as online account management tools accessible by Borrowers); and

- other reliable communication methods through which the Mortgagee has been able to effectively communicate with Borrowers in the past.

The Mortgagee must ensure that their electronic signature technology complies with all requirements of the Electronic Signatures in Global and National Commerce (ESIGN) Act, 15 U.S.C. § 7001 et seq. The Mortgagee must include within the electronic communication the Mortgagee's email address, telephone number, and/or website address.

iv. Specialized Collection Techniques for Early Payment Defaults and Re-Defaults

(A) Definitions

Early Payment Defaults refer to all Mortgages that become 60 Days Delinquent within the first six payments.

A Re-Default is a mortgage Default occurring within six months after reinstatement or the successful use of a Permanent Home Retention Option.

(B) Standard

For Borrowers at risk of Early Payment Default or Re-Default, the Mortgagee must:

- commence contact by the 10th Day of delinquency to remind Borrowers of Mortgage Payment time frames;
- make a minimum of two attempts per week to contact the Borrower after the 10th Day of delinquency and must vary the times and days of the week of contact attempts to maximize the likelihood of contacting the Borrower, until:
  - contact is established; or
  - the Mortgagee determines that the contact information is inaccurate or no longer in service; and
- make reasonable efforts to obtain an alternate contact method and/or follow up with the Borrower using other methods of communication until contact is established.

If the Mortgagee is unable to establish contact, the Mortgagee must determine through an Occupancy Inspection if the Property is vacant or abandoned by the 45th Day of delinquency.

(C) Required Documentation

The Mortgagee must document in their Servicing File all specialized collection efforts to reach the Borrowers at risk of Early Payment Default or Re-Default.

v. Contact Efforts for Delinquent Borrowers

(A) Standard

For Borrowers with a Delinquent Mortgage, the Mortgagee must:

- commence contact by the 25th Day of delinquency;
- make a minimum of two attempts per week and must vary the times and days of the week of contact attempts to maximize the likelihood of contacting the Borrower until:
  - contact is established; or
  - the Mortgagee determines that the contact information is inaccurate or no longer in service; and
- make reasonable efforts to obtain an alternate contact method and/or follow up with the Borrower using other methods of communication until contact is established.

Promptly after establishing contact, the Mortgagee must determine whether the Borrower is occupying the Property, ascertain the reason for the delinquency, and inform the Borrower about the availability of Loss Mitigation Options.

If the Mortgagee is unable to establish contact, the Mortgagee must determine through an Occupancy Inspection if the Property is vacant or abandoned by the 45th Day of delinquency.

(B) Required Documentation

The Mortgagee must document in their Servicing File all communication efforts to reach a Borrower with a Delinquent Mortgage.

vi. Assigned Loss Mitigation Personnel

The Mortgagee must designate personnel to respond to the Borrower's inquiries and to assist them with Loss Mitigation Options no later than the 45th Day of delinquency.

The Mortgagee must provide the contact information of their loss mitigation or customer assistance hotline, offering direct phone access to assigned loss mitigation personnel, in the Delinquency Notice Cover Letter.

vii. Required Notices to Borrower by 45th Day of Delinquency

(A) Standard

Beginning on the 32nd Day, but no later than the 45th Day from the date payment was due, the Mortgagee must send a:

- Notice of Homeownership Counseling Availability; and
- *Servicemembers Civil Relief Act (SCRA) Notice Disclosure* (form HUD-92070).

(1) Notice of Homeownership Counseling Availability

The Mortgagee must provide a Borrower with a Delinquent Mortgage with a notice describing the availability of housing counseling offered by HUD-approved housing counseling agencies. The notification must:

- inform the Borrower with a Delinquent Mortgage of the availability of housing counseling services provided by HUD-approved housing counseling agencies;
- provide instructions for locating a HUD-approved housing counseling agency in the Borrower's area and includes the HUD Housing Counseling Agency Locator toll-free telephone number (800) 569-4287, through which Borrowers can obtain a list of housing counseling agencies;
- provide instructions that HUD is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech and communication disabilities. The Federal Communications Commission (FCC) has information on how to make an accessible phone call; and
- describe housing counseling and the potential benefits of engaging in housing counseling.

(2) *Servicemembers Civil Relief Act Notice Disclosure*

The Mortgagee must send form HUD-92070 for the required notice of servicemember rights to all Borrowers in Default on a residential Mortgage and must include the toll-free Military OneSource number to call if servicemembers or their dependents require further assistance.

(B) Required Documentation

The Mortgagee must document in their Servicing File the dates on which it sent the Notice of Homeownership Counseling Availability and the *SCRA Disclosure*. The Mortgagee must be able to provide to HUD, upon request, the language in its Notice of Homeownership Counseling Availability.

viii. Required Notices to Borrower by 60th Day of Delinquency

(A) Standard

Beginning on the 32nd Day but no later than the 60th Day from the date the Mortgage Payment was due, the Mortgagee must send the:

- Delinquency Notice Cover Letter; and
- *Save Your Home: Tips to Avoid Foreclosure* (form HUD-2008-5-FHA).

(1) Delinquency Notice Cover Letter

The Mortgagee must send the *Save Your Home: Tips to Avoid Foreclosure* with a Delinquency Notice cover letter that includes:

- the following information related to the Mortgage:
  - number of late payments;
  - total amount of any Late Charges incurred;
  - the month of each late payment; and
  - the original due date of each late payment;
- if applicable, a list of information or documentation the Mortgagee needs to complete the loss mitigation analysis; and
- contact information for the Mortgagee's assigned loss mitigation personnel to include, at a minimum, a toll-free telephone number and information on how to locate a HUD-approved counseling agency online or by calling HUD's interactive voice system at (800) 569-4287, and that HUD is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech and communication disabilities. The Federal Communications Commission (FCC) has information on how to make an accessible phone call.

(2) *Save Your Home: Tips to Avoid Foreclosure*

Save Your Home: Tips to Avoid Foreclosure (form HUD-2008-5-FHA) is available in English, Spanish, Chinese, and Vietnamese. Mortgagees may reproduce electronic versions of the form at their own expense.

The Mortgagee may not change the contents of the form in any way.

(3) Resending Notices

The Mortgagee must resend the cover letter and accompanying *Save Your Home: Tips to Avoid Foreclosure* (form HUD-2008-5-FHA) at 45 Days Delinquent unless a new delinquency occurs less than six months after a prior notice and brochure was mailed.

(4) Exception for Borrowers in Bankruptcy

The Mortgagee is not required to send the cover letter and *Save Your Home: Tips to Avoid Foreclosure* if the Borrower has filed bankruptcy before becoming 45 Days Delinquent, and, in the opinion of the Mortgagee's legal counsel, providing the cover letter and brochure would be a violation of the automatic stay.

The Mortgagee must send the cover letter and *Save Your Home: Tips to Avoid Foreclosure* once the Mortgagee has received notification that the automatic stay is lifted.

(B) Required Documentation

The Mortgagee must document in their Servicing File the dates on which it sent the Delinquency Notice cover letter and *Save Your Home: Tips to Avoid Foreclosure*.

The Mortgagee must document a bankruptcy-related exception in the Servicing File.

ix. Occupancy Inspections

(A) Definitions

An Occupancy Inspection is a visual inspection of a mortgaged Property by the Mortgagee to determine if the mortgaged Property has become vacant or abandoned and to confirm the identity of any occupants.

An Occupancy Follow-Up is an attempt to communicate with the Borrower via letter, telephone, or other method of communication, other than on-site inspection, to determine occupancy when the Mortgage remains in Default after the initial inspection and the Mortgagee has not determined the Borrower's occupancy status.

(B) Standard

If the Mortgagee is unable to reach the Borrower(s) by the 45th Day of delinquency, the Mortgagee must perform a visual inspection of the mortgaged Property to determine occupancy status.

(1) Initial Occupancy Inspection

The Mortgagee must perform the initial Occupancy Inspection no later than the 60th Day of delinquency when:

- the Mortgage is in Default;
- a payment has not been received within 45 Days of the due date; and
- efforts to reach the Borrower or occupant have been unsuccessful.

(2) Follow-Up Inspections

If the Mortgagee is unable to determine the Borrower's occupancy status through the initial Occupancy Inspection, the Mortgagee must perform an Occupancy Follow-Up.

If necessary, the Mortgagee must continue Occupancy Inspections every 25-35 Days from the last inspection until the occupancy status is determined.

(3) Occupancy Inspections during Bankruptcy

When payments are not submitted as scheduled by a Borrower in bankruptcy, the Mortgagee must contact either the bankruptcy trustee or the Borrower's bankruptcy attorney for information concerning the status of the Borrower, to determine if an Occupancy Inspection is needed.

The Mortgagee must continue to perform exterior-only visual inspections until the Default is cured, the Property is disposed of, or the bankruptcy court has granted

approval for the Mortgagee to contact the Borrower or to take any required Property Preservation and Protection (P&P) actions.

If the Mortgagee determines that the Property is vacant or abandoned during the period in which the Mortgagee is prohibited from contacting the Borrower, the Mortgagee must note the following in the Servicing File:

- the date it made its determination; and
- that contact with the attorney or trustee has been made.

(4) Determination that the Property is Vacant or Abandoned

If the Mortgagee determines through an Occupancy Inspection that the Property is vacant or abandoned, the Mortgagee must:

- send a letter, via a method providing delivery confirmation, to Borrowers at the property address informing them of the Mortgagee's determination that the Property is vacant or abandoned. This letter must include the Mortgagee's contact information;
- commence Vacant Property Inspections; and
- take appropriate Property P&P actions to secure and maintain the Property.

If the Mortgagee fails to inspect the Property within the required time period, or fails to discover the vacancy, the vacancy date will be the last date on which the Mortgagee should have performed the inspection. If the Property becomes vacant prior to an inspection and the Mortgagee has knowledge of such vacancy, then the date the Property became vacant is the vacancy date.

(C) Required Documentation

The Mortgagee must retain in the Servicing File:

- the dates and methods of Occupancy Follow-Up and vacancy letters;
- evidence of payment to the inspector;
- copies of all completed inspection reports; and
- any accompanying follow-up documentation for Occupancy Inspections.

For all Occupancy Inspections, the Mortgagee must retain in the inspection report:

- date of the inspection;
- identity of the individual inspector and the inspection company;
- the general condition of the Property;
- any actions taken to preserve and protect the Property;
- photographs with a date and time stamp printed on each and labeled accordingly with a description of the contents of each photograph;
- occupancy status of the Property; and
- answers to the following questions, where applicable:
  - Is the house locked?
  - Is the grass mowed and/or are shrubs trimmed?
  - Is there any apparent damage?

- Is any exterior glass broken?
- Are there any apparent roof leaks?
- Does the house contain Personal Property and/or debris?
- Are any doors or windows boarded?
- Is the house winterized?
- Are there any repairs necessary to adequately preserve and protect the Property?

x. Interview

(A) Standard

The Mortgagee must have an interview with the Borrower or make a reasonable effort to arrange an interview no later than the 61st Day of delinquency, or no later than 30 days after default on a Repayment Plan, unless exempt.

The interview should provide a delinquent Borrower the opportunity to meet with the Mortgagee to discuss available loss mitigation options, and, when possible, to be evaluated for these options. The Mortgagee may conduct the interview face-to-face or using alternative communication methods, such as phone interviews, video calling services, or other conferencing technology.

(1) Meeting Not Required

The Mortgagee is not required to conduct an interview if:

- the Borrower has clearly indicated that they will not cooperate with an interview;
- the Borrower's payment is current due to an agreed-upon Repayment Plan, Forbearance Plan, or Trial Payment Plan (TPP);
- a reasonable effort to arrange a meeting with the Borrower is unsuccessful; or
- in the opinion of the Mortgagee's legal counsel, it would be a violation of bankruptcy law.

(2) Reasonable Effort in Arranging an Interview

The Mortgagee must make two attempts to contact the Borrower to arrange the interview and include the following information:

- the availability of interviews; and
- how to schedule the interview.

The Mortgagee may use mailings, telephone calls, in-person outreach, or any electronic or other communication method through which the Mortgagee is able to communicate with Borrowers. The Mortgagee may use a third-party vendor to establish this contact with the Borrower and to schedule the Borrower's interview with a Mortgagee representative.

The Mortgagee may count compliance with any of the following as one or more of the required attempts to arrange the interview when information about the interview is also provided:

- Contact Efforts for Delinquent Borrowers;
- Delinquency Notice Cover Letter;
- the Consumer Financial Protection Bureau's (CFPB) early intervention requirements for Live contact in 12 CFR § 1024.39(a); or
- the CFPB's early intervention requirements for Written notice in 12 CFR § 1024.39(b).

A second attempt is not required if the Mortgagee has established contact with the Borrower on the first attempt.

(3) Mortgagee Representative Authority

The Mortgagee must ensure that the employee representing the Mortgagee at interviews has the authority to propose and accept reasonable Repayment Plans. Where a Mortgagee's representative exceeds their authority by agreeing to a Repayment Plan at the time of the interview, the Mortgagee must still accept the Repayment Plan agreed to by its representative, regardless of whether the representative overstepped their authority.

(B) Required Documentation

The Mortgagee must document in the Servicing File:

- the reason the interview is not required, if exempt;
- the dates and methods of its attempts to arrange an interview; and
- the date of its interview with the Borrower.

xi. Vacant Property Inspections

(A) Definitions

A First-Time Vacant (FTV) Property Inspection is the first inspection performed by the Mortgagee to ascertain the condition of a vacant or abandoned Property.

A Follow-up Vacant Property Inspection is an inspection by the Mortgagee of a vacant or abandoned Property that occurs every 25-35 Days after the FTV Property Inspection until the mortgage Default is cured or until conveyance of the Property to HUD.

(B) Standard

The Mortgagee must take reasonable actions to protect the value of the security, including performing the following required inspections for vacant or abandoned Properties.

The Mortgagee is liable for any damage resulting from the Mortgagee's failure to preserve and protect the Property unless the Mortgagee can prove that the damage occurred prior to the date the Property became vacant.

(1) First-Time Vacant Property Inspection

The Mortgagee must perform the FTV Property Inspection as soon as reasonably practicable, but no more than 15 business days following the determination that the Property is vacant and/or abandoned.

The Mortgagee must:

- secure the Property, if possible;
- upload documentation and photographs showing any damage resulting from the Borrower that is identified using the FTV Property Inspection into P260;
- pressure-test all water supply and upload photographs of the results of the test into P260;
- address all imminent and urgent safety hazards and determine what repairs are required to prevent damage to the Property; and
- photograph the primary exterior facades and interior areas of the primary and secondary Structures, including any damage found.

(2) Follow-up Vacant Property Inspections

The Mortgagee must perform Follow-up Vacant Property Inspections every 25-35 Days after the FTV Property Inspection until the mortgage Default is cured or until conveyance of the Property to HUD. In areas of high vandalism or where local ordinances require more frequent Follow-up Vacant Property Inspections, Mortgagees may perform Follow-up Vacant Property Inspections more frequently than HUD's 25-35 Day requirement and request reimbursement for these inspection costs.

At each inspection, the Mortgagee must:

- photograph the overall condition of the interior and exterior of the primary and all secondary Structures;
- monitor the security and maintenance of the Property;
- assess and manage damage that requires repair, replacement, or removal; and
- address and resolve all emergency repairs.

(C) Required Documentation

For all Vacancy Inspections, the Mortgagee must retain in the Servicing File:

- evidence of payment to the inspector;
- any police reports and/or letters from a local law enforcement agency evidencing the need for additional protective measures; and

- copies of all completed inspection reports that must include:
  - date of the inspection;
  - identity of the individual inspector and the inspection company;
  - the general condition of the Property;
  - any actions taken to protect and preserve the Property;
  - photographs with a date and time stamp printed on each and labeled accordingly with a description of the contents of each photograph;
  - occupancy status of the Property; and
  - answers to the following questions, where applicable:
    - Is the house locked?
    - Is the grass mowed and/or are shrubs trimmed?
    - Is there any apparent damage?
    - Is any exterior glass broken?
    - Are there any apparent roof leaks?
    - Does the house contain Personal Property and/or debris?
    - Are any doors or windows boarded?
    - Is the house winterized?
    - Are there any repairs necessary to adequately preserve and protect the Property?

The Mortgagee must document all Property P&P activities performed on vacant Properties.

xii. Use of Early Default Intervention Tools

As part of early default intervention, the Mortgagee must review the Borrower for the Early Default Intervention Tools.

h. Loss Mitigation Program (11/10/2026)

HUD's Loss Mitigation Options are intended to minimize economic impact to the MMIF and to avoid foreclosure, when possible. The Loss Mitigation Options are:

- Repayment Plan;
- Forbearance;
- Partial Claim;
- Loan Modification;
- Combination Loan Modification and Partial Claim;
- Payment Supplement;
- Outside of the Waterfall Loan Modification (OWL);
- Pre-Foreclosure Sale (PFS); and
- Deed-in-Lieu (DIL) of Foreclosure.

In implementing HUD's Loss Mitigation Program, the Mortgagee must:

- consider all reasonable means to address delinquency at the earliest possible time;
- adhere to the requirements for communication with Borrowers in Default as set out in the Collection Communication Timeline;

- utilize HUD's Loss Mitigation Options to avoid foreclosure, when feasible; and
- re-evaluate each Delinquent Mortgage for Loss Mitigation Options, as required.

When reviewing Borrowers for Loss Mitigation Options, a streamlined or refinanced Mortgage on the same Property and by the same Borrowers is not considered a new Mortgage for seasoning requirements.

The Mortgagee may offer eligible Borrowers Loss Mitigation Options in accordance with program-specific procedures for:

- Section 203(q) Mortgages, Mortgages on Property in Allegany Reservation of Seneca Indians;
- Section 248 Mortgages on Indian Land insured pursuant to Section 248 of the National Housing Act; and
- Section 247 Mortgages, Mortgages on Hawaiian Home Lands insured pursuant to Section 247 of the National Housing Act.

i. Definitions

For the purposes of loss mitigation, the following definitions apply:

Borrower refers to the original Borrower who signs the Note and their heirs, executors, administrators, assigns, and approved substitute Borrowers. This includes any Borrower who is occupying or not occupying the Property.

Financial Hardship refers to an increase in living expenses or a loss of income affecting the Borrower's ability to continue their Mortgage Payments as attested by the Borrower.

ii. Servicemember Status

The Mortgagee must offer eligible servicemember Borrowers mortgage protections under the SCRA and Servicing FHA-Insured Mortgages for Servicemember-Borrowers.

iii. Standard

(A) Eligibility to Participate in HUD Programs

The Mortgagee must verify that the Borrowers are eligible to participate in HUD's Loss Mitigation Program.

To be eligible to participate in HUD's Loss Mitigation Program, the Borrower:

- may not own other real estate subject to FHA insurance, except within the stated exceptions;
- has not been the Borrower, except through inheritance or as a co-signer only, on prior loans on which an FHA claim has been paid within the past three years;
- for purposes of a Loan Modification, Partial Claim, Combination Loan Modification and Partial Claim, or Payment Supplement, must not be

debarred, suspended or subject to a HUD Limited Denial of Participation (LDP) as determined in accordance with Excluded Parties requirements; and

- for purposes of a Partial Claim, Combination Loan Modification and Partial Claim, or Payment Supplement, may not have unresolved delinquent Federal Debt as determined in accordance with Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt requirements. The Delinquent FHA-insured Mortgage associated with the Loss Mitigation does not constitute a disqualifying delinquent Federal Debt.

(1) Occupancy

(a) Definitions

An Owner-Occupant Borrower refers to a Borrower residing in the Property secured by the FHA-insured Mortgage as a Principal Residence.

A Non-Occupant Borrower refers to a Borrower on a Mortgage securing a Property that is not occupied by any Borrower or is not the Principal Residence.

(b) Standard

The Mortgagee must consider Owner-Occupant Borrowers and Non-Occupant Borrowers for all Loss Mitigation Options.

(2) Non-Borrowers Who Acquired Title through an Exempted Transfer

The Mortgagee may consider Repayment Plans, Forbearances, Permanent Home Retention Options, and Home Disposition Options for a non-borrower if the Mortgage is not due and payable pursuant to the Garn-St. Germain Depository Institutions Act, (i.e., an Exempted Transfer), and that the non-borrower:

- must meet the criteria for loss mitigation assistance; and
- for a Permanent Home Retention Option:
  - acquires title to a Property securing an FHA-insured Mortgage;
  - assumes personal liability for repayment of the Mortgage;
  - will occupy the home as a Principal Residence;
  - successfully completes a six-month TPP; and
  - has a valid SSN or EIN or meets the eligibility requirement exception regarding social security numbers.

(B) 90-Day Review

A Mortgagee is required to complete an evaluation of a Defaulted Mortgage for appropriate Loss Mitigation Options before four monthly installments are due and unpaid and send a written Notice to Borrower with the determination of eligibility.

(C) Required Documentation

The Mortgagee must retain in the Servicing File and the Claim File, if applicable, documentation evidencing that the Borrower is eligible to participate in an FHA transaction, and a copy of the Notice to Borrower, and document efforts to reach the Borrower in Default in advance of the 90-Day Review deadline.

The Mortgagee may obtain confirmation from the Borrower, verbally or in writing, that the Borrower does not own any other FHA-insured Property or meets one of the stated exceptions.

iv. Evaluation of Borrower for Loss Mitigation Assistance

(A) Definition

A Complete Loss Mitigation Request is a request for loss mitigation assistance that contains all information from the Borrower required to evaluate all Loss Mitigation Home Retention Options and Home Disposition Options.

(B) Standard

The Mortgagee must ensure that the Complete Loss Mitigation Request includes:

- the reason for Financial Hardship;
- Borrower occupancy status; and
- documentation that may impact a Mortgagee's ability to provide a Loss Mitigation Option for Servicemembers, or Non-Borrowers Who Acquired Title through an Exempted Transfer.

The Borrower is not required to provide financial documentation to be evaluated for a Loss Mitigation Option. The Mortgagee must not use any financial documentation about the Borrower to disqualify the Borrower from a Loss Mitigation Option other than the required Financial Hardship documentation.

The Mortgagee must not condition the use of a Loss Mitigation Option on the receipt of a Borrower's cash contribution or a Borrower's payment of fees or charges.

For loss mitigation requests received after the initiation of foreclosure, the Mortgagee must evaluate and respond to Complete Loss Mitigation Requests according to the time frame requirements in Loss Mitigation during the Foreclosure Process.

(C) Financial Hardship Documentation

Mortgagees must obtain the Borrower's reason for Financial Hardship and documentation, as required in the table below. The Mortgagee may obtain the reason for Financial Hardship verbally, electronically, or in writing.

Type of Hardship	Required Hardship Documentation
Unemployment	Not required
Reduction in income: a hardship that has caused a decrease in your income due to circumstances outside your control (e.g., elimination of overtime, reduction in regular working hours, a reduction in base pay)	Not required
Increase in housing-related expenses: a hardship that has caused an increase in your housing expenses due to circumstances outside your control (e.g., uninsured losses, increased property taxes, HOA special assessment)	Not required
Disaster (natural or man-made) impacting the Property or Borrower's place of employment	Not required
Long-term or permanent disability, or serious illness of a Borrower/co-Borrower or dependent Family Member	Not required
Divorce or legal separation	Final divorce decree or final separation agreement **OR** Recorded quitclaim deed
Separation of Borrowers unrelated by marriage, civil union, or similar domestic partnership under applicable law	Recorded quitclaim deed **OR** Legally binding agreement evidencing that the non-occupying Borrower or co-Borrower has relinquished all rights to the Property
Death of Borrower or death of either the primary or secondary wage earner	Death certificate **OR** Obituary or newspaper article reporting the death
Active duty servicemember employment transfer/relocation	**For active duty servicemembers:** Permanent Change of Station (PCS) orders or letter showing transfer
Other hardship not listed above	Not required unless needed to evidence legal ownership due to the hardship

The Mortgagee must review the required documents to identify if the documents indicate that Borrowers or non-borrowers:

- have or will have legal ownership of the Property; and
- will be included on Loss Mitigation documents for the Permanent Home Retention Option.

(D) Required Documentation

The Mortgagee must document in the Servicing File and the Claim File, if applicable, the Complete Loss Mitigation Request and the date of receipt.

v. HUD's Loss Mitigation Option Waterfall

The Mortgagee must evaluate Borrowers using the Loss Mitigation Option Waterfall below and the requirements for the specific Loss Mitigation Options.

Loss Mitigation Waterfall Options			
Question	**Decision Point**	**Yes** (If the Loss Mitigation Option cannot be offered, proceed to the next Question)	**No**
1	Is the Borrower no more than 120 Days* in Default and able to repay Arrearages over a set period of no more than 24 months? *Default may be greater than 120 Days for specific Borrowers.	Review for a Repayment Plan	Proceed to Question 2
2	Does the Borrower require a period of reduced or suspended payments before they are able to resume payments?	Review for a Forbearance	Proceed to Question 3
3	Has the Borrower received a Permanent Home Retention Option in the past 24 months (other than for a PDMDA)?	Proceed to Question 8	Proceed to Question 4
4	Does the Borrower attest they can resume making their current Mortgage Payments?	Review for a Standalone Partial Claim	Proceed to Question 5
5	Can a Standalone Loan Modification achieve the target payment?	Review for a Standalone Loan Modification	Proceed to Question 6
6	Can a Combination Loan Modification and Partial Claim achieve the target payment?	Review for a Combination Loan Modification and Partial Claim	Proceed to Question 7
7	Does the Borrower qualify for a Payment Supplement?	Review for a Payment Supplement	Return to Question 6, if required, or proceed to Question 8
8	Does the Borrower meet the requirements to participate in a Home Disposition Option?	Review for a PFS If an approved PFS marketing period is unsuccessful, review for a DIL of Foreclosure	Foreclosure

vi. Notice to Borrower after Loss Mitigation Review

The Mortgagee must send a written notice to the Borrower after an evaluation of the Borrower for Loss Mitigation Option eligibility, which indicates:

- the Mortgagee's determination of the Borrower's eligibility for a Loss Mitigation Option and which Loss Mitigation Option, if any, the Mortgagee will offer to the Borrower;
- the amount of time in which the Borrower must accept or reject an offer of a Loss Mitigation Option;
- the actual reason or reasons they have been denied for any HUD Loss Mitigation Option;
- the process for appeals or escalation of cases;
- the process and time frame for submission of additional information that may impact the Mortgagee's evaluation;
- the Mortgagee's points of contact; and
- if loss mitigation is denied, rejected by the Borrower, unsuccessful, or unable to be considered due to the Borrower's failure to execute the documents to complete the Loss Mitigation Option or to provide additional information requested by the Mortgagee, and any applicable appeal period has expired:
  - the Borrower's Mortgage may be included in a Single Family Loan Sale (SFLS); or
  - the Borrower's Mortgage may be foreclosed upon.

vii. Loss Mitigation Agreements

(A) Definition

A Loss Mitigation Agreement refers to all Permanent Home Retention or Home Disposition Options documents that require execution by the Borrower.

(B) Standard

The Mortgagee must ensure that Loss Mitigation Agreements are executed by all parties necessary to ensure:

- that HUD's first lien position is preserved; and
- that the agreement is enforceable under state and local law.

The Mortgagee may exclude certain signatories to the agreement or waive the need for a quit claim deed because of divorce, legal separation, domestic violence, mental incapacity, military deployment, or abandonment if the Mortgagee can ensure HUD's first lien position and the agreement is enforceable under state and local law.

(C) Mortgagee Signature

Where a Mortgagee signature is required on a Loss Mitigation Agreement, the servicing Mortgagee with this delegated authority may provide this signature.

(D) Authorized Third Parties

When a Loss Mitigation Agreement is to be signed by an Authorized Third Party with authority to act on behalf of the Borrower, the Mortgagee must include a copy of that party's authorization in the Servicing File and Claim File, if applicable.

(E) Electronic Signatures

The use of electronic signatures is voluntary. HUD will accept an electronic signature conducted in accordance with the Policy on Use of Electronic Signatures on HUD Loss Mitigation documents requiring signatures, unless otherwise prohibited by law.

(F) No Waiver of Rights

The Mortgagee must not include any language in loss mitigation documents that requires Borrowers to waive their rights under state or federal law or under the mortgage contract as a condition for consideration, approval, or implementation of a Loss Mitigation Option.

viii. Loss Mitigation during Bankruptcy Proceedings

(A) Standard

The Mortgagee must comply with and seek relief, if appropriate, from the automatic stay. The Mortgagee may review Borrowers with active Chapter 7 or Chapter 13 bankruptcy cases for Loss Mitigation Options to the extent that such loss mitigation does not violate federal bankruptcy laws or orders of the bankruptcy court or bankruptcy trustee.

(1) Eligibility for Loss Mitigation

The Mortgagee may consider Loss Mitigation Options for those Borrowers who have received a Chapter 7 bankruptcy discharge and did not reaffirm the FHA-insured mortgage debt under applicable law.

(2) Bankruptcy Proceedings for which Borrower Has an Attorney

The Mortgagee must, upon receipt of notice of a bankruptcy filing, send information to the Borrower's attorney indicating that Loss Mitigation Options may be available, and provide:

- requirements for additional financial information documentation;
- applicable time frames;
- Mortgagee contact information; and
- additional instructions to facilitate workout discussions, as appropriate.

The Mortgagee must ensure that this communication does not infer that it is in any way an attempt to collect a debt.

(3) Bankruptcy Proceedings for which Borrower does Not Have an Attorney (Bankruptcy Pro Se)

Where the Borrower filed the bankruptcy pro se, the Mortgagee must send information indicating that Loss Mitigation Options may be available to the Borrower, with a copy to the bankruptcy trustee.

The Mortgagee must ensure that this communication does not infer that it is in any way an attempt to collect a debt.

(B) Required Documentation

The Mortgagee must retain documentation supporting efforts to comply with or seek relief from automatic stays and documentation supporting any delays in meeting required HUD timelines in the Servicing File and the Claim File.

ix. Escalated Cases

(A) Definition

Escalated Cases are Borrower inquiries and complaints requiring additional Mortgagee review because they include allegations of:

- improper analysis of Borrower information or denials of Loss Mitigation Options;
- foreclosures initiated or continued in violation of HUD's policy; or
- other violations of HUD policy.

(B) Standard

The Mortgagee must escalate cases to its designated escalation team at the request of:

- HUD staff; or
- the Borrower or Borrower's Authorized Third Party representative.

(C) Escalation Processes

The Mortgagee must escalate and respond to cases in accordance with their written internal policies.

The Mortgagee must ensure that, at a minimum, the policies include the following:

- which staff members will be responsible for resolving escalated cases. These staff members must:
  - not be the same staff members responsible for the first evaluation of the loss mitigation application; and
  - have access to the Borrowers' Servicing Files;
- provide for timely responses to escalated cases as follows:
  - within seven Days of categorizing a Borrower's inquiry or complaint as an escalated case, the Mortgagee should notify the Borrower in writing that

their inquiry and/or complaint has been escalated and that a resolution to their case will be provided no later than 30 Days from the date of escalation; and
    - if the Mortgagee is unable to resolve an escalated case within 30 Days, the Mortgagee must send the Borrower written updates on the status of their case every 15 Days until the case is resolved;
- provide Borrowers with the direct contact information of the department and/or staff member responsible for resolving its escalated cases;
- include methodologies for assessing a Servicer's compliance with its escalation policies. These methodologies must be included in a Mortgagee's Quality Control (QC) Plan; and
- detail the Mortgagee's process for resolving escalated cases and managing foreclosure activity when a foreclosure sale has been scheduled.

x. Required Documentation

The Mortgagee must document their compliance with HUD's Loss Mitigation Program in the Servicing File and the Claim File, if applicable, including:

- all loss mitigation actions, including all efforts to contact the Borrowers; and
- all documentation used to analyze and make loss mitigation decisions and to confirm compliance with loss mitigation requirements.

i. Loss Mitigation Home Retention Options (11/10/2026)

i. Definitions

The Loss Mitigation Home Retention Options are:

- Repayment Plans;
- Forbearances;
- Standalone Partial Claims;
- Standalone Loan Modifications;
- Combination Loan Modifications and Partial Claims;
- Payment Supplements; and
- Outside of the Waterfall Loan Modifications (OWL).

Early Default Intervention Tools refer to Repayment Plans and Forbearances.

Permanent Home Retention Options refer to Standalone Partial Claims, Standalone Loan Modifications, Combination Loan Modifications and Partial Claims, and Payment Supplements.

Arrearages refer to amounts needed to bring the Mortgage current and must only include:

- for Repayment Plans, Standalone Partial Claims, and Payment Supplements, principal amounts that are past due;
- unpaid accrued interest;
- past due escrow amounts and/or Mortgage advances for escrow items;

- projected escrow shortage amount, except for Repayment Plans; and
- allowable legal fees and foreclosure and bankruptcy costs for work performed for the current Default episode as of the date of the foreclosure cancellation and not higher than the fees and costs HUD has identified as customary and reasonable.

ii. Early Default Intervention Tools

(A) Repayment Plans

(1) Definitions

A Repayment Plan allows a Borrower to resume their Mortgage Payment after a Delinquency and includes an additional amount required to repay the Arrearages, as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part A: Arrearages, Step 2, over a specific period to reinstate the Mortgage.

A Repayment Plan Agreement is a written document that provides the Borrower with the terms of the plan to reinstate the Delinquent Mortgage.

(2) Standard

The Mortgagee must review the Borrower for a Repayment Plan if the Borrower affirms the monthly installment amount required under the terms of the Repayment Plan Agreement is affordable.

Prior to providing the Repayment Plan Agreement, the Mortgagee must inform the Borrower that they may be eligible for a Permanent Home Retention Option that may reduce the Mortgage Payment.

The Mortgagee must:

- ensure the term of the Repayment Plan does not exceed 24 months; and
- require the delinquency to be repaid in equal monthly installments, in addition to the Mortgage Payments, over the term of the Repayment Plan.

The Mortgagee must suspend or terminate any foreclosure action upon approval of a Repayment Plan in accordance with the requirements for Terminating Foreclosure Proceedings for Loss Mitigation.

Repayment Plans are not eligible for Mortgage incentive payments.

(3) Borrower Qualifications

The Mortgagee must ensure the Borrower attests they can make the Mortgage Payment under the Repayment Plan.

The Mortgagee must ensure that the Borrower's Arrearages do not exceed:

- four months Delinquent PITI; or

- 12 months Delinquent PITI for:
  - Mortgages funded in connection with mortgage revenue bonds that are restricted by the IRC and cannot extend the term of a Mortgage, or the interest rate cannot be modified; or
  - Borrowers who have less than $1,000 in Partial Claim funds available; or
  - Borrowers who received a Permanent Home Retention Option in the past 24 months, where the first legal action to initiate foreclosure has not been completed.

Borrowers who failed a TPP for a Permanent Home Retention Option during the current Default episode are not eligible for a Repayment Plan.

(4) Repayment Plan Agreement

The Mortgagee must provide the Borrower with the Repayment Plan Agreement at least 15 Days before the date the first installment is due. The Borrower is not required to sign and return the Repayment Plan Agreement.

The Mortgagee must ensure the Repayment Plan Agreement provides the following information:

- the specific months for which the account is Delinquent and the total Arrearage that accrued prior to the beginning of the Repayment Plan;
- the term of the plan in months;
- the monthly installment amount required, which must include:
  - the current monthly installment; and
  - the additional amount required to cover Arrearages;
- late fees will not be assessed while the Borrower is performing under the terms of the Repayment Plan;
- if the escrow amount changes, the monthly installment may also change during the Repayment Plan;
- the Borrower may contact the Mortgagee to determine if other Loss Mitigation Options or an adjustment to the Repayment Plan is available if their financial circumstances change;
- the Borrower may pre-pay at any time; and
- remittance of the initial monthly installment in an amount equal to or greater than the amount required under the plan is considered the Borrower's acceptance of the Repayment Plan Agreement.

(5) Repayment Plan Failure

The Borrower has failed a Repayment Plan if:

- the Mortgagee becomes aware the Property has been condemned or abandoned;

- the Borrower does not make a scheduled monthly installment by the last Day of the month the installment was due; or
- the Borrower informs the Mortgagee that the terms of the Repayment Plan Agreement will not be fulfilled.

The Mortgagee must apply remaining funds in suspense, if any, to the Borrower's account in accordance with Application of Payments.

If the Repayment Plan fails, the Mortgagee must evaluate the Borrower for the other Loss Mitigation Options. If the Borrower is not approved for a different Loss Mitigation Option, the Mortgagee must initiate foreclosure. HUD provides an automatic 90-Day extension during which the Mortgagee must take one of these actions.

(6) Required Documentation

The Mortgagee must retain the Repayment Plan Agreement in the Servicing File and the Claim File.

(B) Forbearance

(1) Definition

A Forbearance allows for reduced or suspended monthly Mortgage Payments for a specified period.

(2) Eligibility

The Mortgagee may offer an initial Forbearance to a Borrower when:

- the Borrower attests they have an unresolved Financial Hardship;
- the first legal action to initiate foreclosure has not been completed; and
- the Forbearance period(s) will not result in an accrued Arrearage exceeding 12 months of Delinquent PITI.

(3) Standard

The Mortgagee may provide an initial Forbearance for a period of one to three months. After the initial Forbearance period, the Mortgagee must contact the Borrower monthly to verify occupancy and continued eligibility and to adjust the terms of the agreement if there is a change in financial circumstances.

For Borrowers impacted by a Presidentially-Declared Major Disaster Area (PDMDA) the Mortgagee must review the Borrower for a Disaster Forbearances for Borrowers in PDMDAs.

The maximum Forbearance per Default episode is 12 months, provided the accrued Arrearage does not exceed the equivalent of 12 months Delinquent PITI

for the duration of the plan. For Graduated Payment Mortgages (GPM) and Growing Equity Mortgages (GEM), this will be calculated by multiplying 12 times the monthly payments due on the date of Default.

Accrued Arrearages during a PDMDA Forbearance within the same Default episode do not count against the 12-month Delinquent PITI maximum.

The Mortgagee may reduce, suspend, or both, the required monthly Mortgage Payment for the Forbearance period.

The Mortgagee may offer additional Forbearance periods for one to three months, where:

- the eligibility for a Forbearance continues to be met; and
- the Servicing File reflects the Borrower affirms the continued need for a Forbearance prior to each subsequent period.

Forbearances are not eligible for loss mitigation incentive payments.

(4) Forbearance Agreement

The Mortgagee must provide the Forbearance Agreement to the Borrower within 15 Days from the date of approval of the initial Forbearance period and must provide an updated Forbearance Agreement for each subsequent Forbearance period. The Borrower is not required to sign and return the Forbearance Agreement.

The Mortgagee must ensure the Forbearance Agreement provides the following information:

- the term of the plan in months;
- the monthly installment amount required, if any;
- late fees will not be assessed during the Forbearance;
- the Borrower should contact the Mortgagee to determine if other Loss Mitigation Options are available if their financial circumstances change; and
- the Borrower may pre-pay at any time.

(5) Payment Application

The Mortgagee must place payments submitted by the Borrower during the Forbearance period in a suspense account which is to be identified as belonging to the Borrower. When the suspense funds total a full monthly payment, the Mortgagee must apply the payment to the Borrower's account in accordance with HUD's Partial Payments for Mortgages in Default guidance and any other applicable requirements.

If the Borrower does not complete the terms of the Forbearance, any funds held in suspense must be applied to the Borrower's account.

(6) Expiration of Forbearance Agreement

During the month in which the Forbearance Agreement is to expire, the Mortgagee must contact the Borrower to determine if the Borrower qualifies for:

- an additional period of Forbearance, provided that the Forbearance will not allow for more than 12 months of Delinquent PITI;
- a Repayment Plan; or
- a permanent Loss Mitigation Option.

HUD provides automatic 90-Day extensions to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure following the expiration of the Forbearance.

(7) Forbearance Failure

A Forbearance is considered failed if:

- the Property is condemned or abandoned; or
- the Borrower:
  - informs the Mortgagee that the terms of the Forbearance Agreement will not be fulfilled; or
  - fails to perform under the terms of the Forbearance Agreement for 60 Days without any advisement to the Mortgagee of any problems that prevented the Borrower from complying with the terms of the agreement.

If the Forbearance fails, the Mortgagee must evaluate the Borrower for another Loss Mitigation Option. If the Borrower is not approved for a Loss Mitigation Option, the Mortgagee must commence or recommence foreclosure. HUD provides an automatic 90-Day extension during which the Mortgagee must take one of these actions.

(8) Required Documentation

The Mortgagee must retain in the Servicing File and the Claim File, if applicable, a copy of the Forbearance Agreement and each subsequent Forbearance Agreement.

iii. Permanent Home Retention Options

Prior to providing a Borrower with a Permanent Home Retention Option, the Mortgagee must explain to the Borrower, verbally or in writing:

- the different Early Default Intervention Tools, Permanent Home Retention Options, and Home Disposition Options, including:

  - the Borrower's responsibilities under each; and
  - the repercussions if the Borrower does not meet their responsibilities;
- the Borrower will not be eligible to receive more than one Permanent Home Retention Option in a 24-month period except in cases of natural disasters;
- if the Borrower qualifies for the Standalone Partial Claim, they may also be eligible for a Permanent Home Retention Option that may reduce the Mortgage Payment; and
- that a TPP will be required and the documents for the Permanent Home Retention Option will be required to be executed after the TPP to finalize the option.

(A) Standard Eligibility

The Mortgagee must ensure the following requirements are met in addition to all requirements for the appropriate Permanent Home Retention Option.

(1) Mortgage Status

The Mortgagee must ensure that:

- a minimum of four Mortgage Payments have been paid by the Borrower on the Mortgage, except for Disaster Home Retention Options;
- the Mortgage is in Default or Imminent Default;
- any foreclosure action is suspended or terminated in accordance with the requirements for Terminating Foreclosure Proceedings for Loss Mitigation; and
- three or more full monthly payments are due and unpaid (i.e., 61 Days or more past due) prior to sending the TPP Agreement for the approved Permanent Home Retention Option.

The Mortgagee may send the TPP Agreement to Borrowers in Imminent Default prior to three or more full monthly payments becoming due and unpaid. The Mortgagee may consider a Borrower in Imminent Default who has completed a TPP and remains in Default as meeting the delinquency requirement.

(2) Borrower Qualifications

The Mortgagee must ensure that the Borrower:

- attests that the Default or Imminent Default is due to a Financial Hardship;
- attests that they can resume making their current Mortgage Payment or indicates they require payment reduction;
- has not executed an agreement for a Permanent Home Retention Option or OWL, where the date of execution on a previous Permanent Home Retention Option occurred in the past 24 months, at the time the Permanent Home Retention Option is executed, except:
  - a Borrower who received a PDMDA Home Retention Option or a COVID-19 Home Retention Option in the past 24 months remains eligible for a Permanent Home Retention Option or OWL; and

- a Borrower who received a Permanent Home Retention Option, OWL, or PDMDA Home Retention Option within the past 24 months remains eligible for a PDMDA Home Retention Option if impacted by a disaster associated with a PDMDA;

- completes the Borrower Affordability Attestation for the Permanent Home Retention Option; and
- has successfully completed a TPP.

(3) Property Condition

The Mortgagee must conduct any review it deems necessary, including a property inspection, when:

- the Mortgagee receives notice from the Borrower, local government, or other third parties regarding adverse property condition; or
- the Property may be affected by a disaster event.

If the Mortgagee determines the property condition will adversely impact the long-term use of the Property or ability to support the debt, the Mortgagee is not required to review the Borrower for the Permanent Home Retention Options.

(B) Borrower Affordability Attestation

(1) Definition

Borrower Affordability Attestation refers to the Borrower's affirmation that the Borrower can make the offered monthly Mortgage Payment under the Permanent Home Retention Option and they will not be eligible for another Permanent Home Retention Option, which may provide additional payment reduction, in the 24 months following the execution of the offered Permanent Home Retention Option, except for a PDMDA.

(2) Standard

The Mortgagee must obtain the Borrower Affordability Attestation either electronically, by hard copy, or verbally for all Permanent Home Retention Options prior to issuing the final documents for the Permanent Home Retention Option.

The Mortgagee must ensure:

- the Borrower affirms the monthly Mortgage Payment amount offered is affordable; and
- the Borrower acknowledges they will not be eligible for another Permanent Home Retention Option, which may provide additional payment reduction, in the 24 months following the execution of the offered Permanent Home Retention Option, except for a PDMDA.

If the Mortgagee receives the Borrower Affordability Attestation verbally, the Mortgagee must certify that they have verbally received the Borrower's attestation and note the name and the phone number of the Borrower that provided the attestation.

If the Mortgagee requires an electronic or hard copy of the Borrower Affordability Attestation, the Mortgagee must provide the Borrower 30 Days to return it. If it has not been returned, the Mortgagee must contact the Borrower, at a minimum, twice within the 30-Day period to notify the Borrower that the Borrower Affordability Attestation must be returned within 30 Days.

The Mortgagee must receive the Borrower Affordability Attestation from at least one Borrower.

If the Borrower Affordability Attestation is not obtained, the Mortgagee must consider the Borrower to be unresponsive, evaluate the Borrower for an OWL, and commence, recommence, or resume foreclosure within 90 Days if the Borrower is ineligible for the OWL.

(3) Required Documentation

The Mortgagee must include the Borrower Affordability Attestation in the Servicing File and Claim File.

(C) Trial Payment Plans

(1) Definitions [Text was deleted in this section.]

A Trial Payment Plan (TPP) is a payment plan for a period of three months, four months for a Borrower in Imminent Default, or six months for Non-Borrowers Who Acquired Title through an Exempted Transfer, during which the Borrower must make the agreed-upon monthly payments beginning after the Mortgagee has approved the Borrower for a Permanent Home Retention Option or OWL, and prior to executing the permanent Loss Mitigation documents.

A Trial Payment Plan (TPP) Agreement is a written document that establishes the TPP terms, which must be provided to the Borrower prior to the first payment due under the TPP payment due date.

(2) Standard

(a) Trial Payment Plan Required

The Mortgagee must ensure the Borrower successfully completes a TPP for a period of three months before executing Permanent Home Retention Option or OWL documents.

The Mortgagee must ensure Borrowers in Imminent Default successfully complete a TPP for a period of four months before executing Permanent Home Retention Option documents.

The Mortgagee must ensure Non-Borrowers Who Acquired Title through an Exempted Transfer successfully complete a TPP for a period of six months before executing Permanent Home Retention Option documents.

The Mortgagee must complete an escrow analysis before calculating the monthly payment under the TPP.

(b) Trial Payment Terms

The Mortgagee must ensure the following terms of the TPP are met:

- the TPP does not exceed a period of three months, four months for Borrowers in Imminent Default, or six months for Non-Borrowers Who Acquired Title through an Exempted Transfer;
- for any Loss Mitigation Option that includes a Loan Modification, the interest rate for the TPP and the permanent Loan Modification is not greater than the Market Rate;
  - the Market Rate must be established when the TPP is offered;
- the P&I portion of the monthly payment under the TPP must be the projected P&I portion of the monthly Mortgage Payment for the Permanent Home Retention Option or OWL; and
- Late Charges must be waived during the trial payment period if the Borrower is paying as agreed on the TPP.

For Borrowers completing a TPP after a default during a Payment Supplement Period, the Mortgagee must:

- ensure the P&I portion of the monthly payment during the TPP is the projected P&I portion of the monthly Mortgage Payment for the Permanent Home Retention Option or OWL;
- for Standalone Partial Claims, continue to apply the Monthly Principal Reduction (MoPR) during the TPP when the Mortgagee has received and accepted, at a minimum, the Borrower's portion of the Mortgage Payment under the Payment Supplement; and
- for Loan Modifications or Combination Loan Modifications and Partial Claims:
  - not reduce the TPP payment amount by the MoPR; and
  - apply the MoPR when the Borrower's portion of the Mortgage Payment due under the Payment Supplement has been received and accepted, including partial payments accumulated during the TPP.

(c) Trial Payment Plan Agreement

The Mortgagee must provide the TPP Agreement to all parties that will be required to execute the Loss Mitigation Agreement for the Permanent Home Retention Option or OWL at least 15 Days before the date the first trial payment is due. The Borrower is not required to sign and return the TPP Agreement.

The TPP Agreement must include:

- the duration of the TPP period;
- the amount of the monthly payments, which are the projected monthly Mortgage Payments for the Permanent Home Retention Option or OWL;
- the months the payments are due during the TPP period;
- the Market Rate for the modified Mortgage, if applicable; and
- a notice that indicates:
  - remittance of the initial monthly installment in an amount equal to or greater than the amount required under the TPP is considered the Borrower's acceptance of the TPP Agreement;
  - after successfully completing the TPP, the Borrower must continue making payments in accordance with the terms of the TPP Agreement until the Permanent Home Retention Option or OWL documents have been ratified by all parties; and
  - the reasons a TPP would fail.

(d) Application of Trial Payments

When the trial payment is less than a full monthly payment the Mortgagee must apply them in accordance with Partial Payments for Mortgages in Default and any applicable federal regulations.

(3) Trial Payment Plans during Foreclosure

The Mortgagee must suspend or terminate the foreclosure action in accordance with Terminating Foreclosure Proceedings for Loss Mitigation.

(4) Successful Completion of Trial Payment Plan Period

Upon the Borrower's successful completion of a TPP, the Mortgagee must:

- prepare the Loss Mitigation documents to be effective no later than the first Day of the second month following the final TPP month;
- provide the Loss Mitigation Agreement documents to all required parties at least 15 Days before the effective date of the Permanent Home Retention Option or OWL with the deadline to return executed documents;
- apply funds remaining in the Borrower's suspense account that do not total a full PITI payment to any calculated escrow shortage or to reduce

any amounts that would otherwise be capitalized in the principal balance; and

- provide an executed copy of the Loss Mitigation Agreement documents to the Borrower no later than 15 Days after receipt of the documents.

(5) Trial Payment Plan Failure

(a) Standard

The Borrower has failed a TPP when one of the following occurs:

- the Mortgagee becomes aware the Property has been condemned or abandoned;
- the Borrower fails to accept a TPP Agreement for a third time during the Default episode;
- the Borrower does not make a scheduled TPP payment by the last Day of the month the payment was due; or
- the Borrower informs the Mortgagee that the terms of the TPP Agreement will not be fulfilled.

The Mortgagee must report a TPP failure in SFDMS, even if a subsequent TPP may be offered.

The Mortgagee must apply all funds remaining in suspense to the Borrower's account in accordance with Application of Payments.

If the Borrower fails a TPP and is not eligible for another Permanent Home Retention Option, the Mortgagee must evaluate the Borrower for Home Disposition Options.

HUD provides an automatic 90-Day extension for the Mortgagee to approve another Loss Mitigation Option, or to commence or recommence foreclosure, should a TPP fail.

(b) Reconsideration for Permanent Home Retention Options After TPP Failure

Borrowers who fail an initial TPP for the following Home Retention Options, due to not making a scheduled TPP payment by the last Day of the month the payment was due, are eligible for re-evaluation for a Permanent Home Retention Option:

- a Standalone Partial Claim;
- a Standalone Loan Modification in lieu of a Partial Claim (calculated using Appendix 4.0 – FHA Home Retention Options Calculations, Part C: Borrower Attests They Can Resume Mortgage Payments); or
- an OWL.

All other Borrowers are ineligible for re-evaluation for a second TPP, but remain eligible to be reviewed for Home Disposition Options.

For an eligible Borrower, the Mortgagee must:

- re-evaluate the Borrower for a Permanent Home Retention Option, in order, using Appendix 4.0 – FHA Home Retention Options Calculations, Part D through Part F; and
- if the Permanent Home Retention Option provides at least a $1 reduction in the P&I payment from the initial TPP, offer the Borrower one additional TPP for the Permanent Home Retention Option.

If the Borrower receives a second TPP, the Mortgagee must report the use of a TPP in SFDMS after the TPP failure for the initial TPP is reported.

If a second Permanent Home Retention Option is unable to provide the required P&I reduction or if the Borrower fails a second TPP, the Mortgagee must evaluate the Borrower for Home Disposition Options.

(6) Required Documentation

The Mortgagee must retain a copy of any TPP Agreement in the Servicing File and the Claim File.

(D) Execution of Permanent Home Retention Option Documents

The Mortgagee must send the Permanent Home Retention documents to the Borrower within 15 Days from the successful completion of a TPP.

The Mortgagee must cease all foreclosure related activities upon acceptance of the executed Permanent Home Retention Option documents.

The Mortgagee must ensure that Permanent Home Retention Option documents are executed by all parties necessary to ensure:

- HUD's first lien position is preserved; and
- the Agreement is enforceable under state and local law.

The Mortgagee must accept the executed Permanent Home Retention Option documents returned within the month of the effective date of the Permanent Home Retention Option, provided the Borrower continues to make Mortgage Payments.

The Mortgagee must include a written notification with the Permanent Home Retention Option documents that advises the Borrower:

- the Permanent Home Retention Option will be denied if the documents are not returned within the month of the effective date of the Permanent Home Retention Option;
- the Permanent Home Retention Option will be denied if the Borrower does not continue to make Mortgage Payments; and

- the Permanent Home Retention Option must fully reinstate the Mortgage within the month of the effective date even if the Mortgagee accepts the executed documents after the effective date.

If the Borrower fails to return the executed Permanent Home Retention Option documents within the month of the effective date of the Permanent Home Retention Option, the Mortgagee must deny the option. If the Permanent Home Retention Option is denied, the Mortgagee must evaluate the Borrower for Home Disposition Options. If the Borrower is denied for a Home Disposition Option, the Mortgagee must commence, recommence, or resume foreclosure no later than 90 Days after denial of the Loss Mitigation Option.

The Mortgagee must provide a fully executed copy of the Loss Mitigation Agreement documents to the Borrower no later than 15 Days after the documents are accepted by the Mortgagee.

iv. Partial Claims

(A) Definition

A Partial Claim is FHA's reimbursement of a Mortgagee advancement of funds on behalf of the Borrower in an amount necessary to assist in reinstating the Delinquent Mortgage and, where applicable, a principal deferment.

(B) Standard

The Partial Claim must be secured by a zero interest subordinate promissory Note and Mortgage executed by the Borrower in favor of HUD.

The Mortgagee must ensure that any Partial Claim, whether a Standalone Partial Claim or in combination with a Loan Modification, fully reinstates the Mortgage. A Partial Claim offered in combination with a Loan Modification may include an amount used for principal deferment, when required.

Mortgagees must perform an escrow analysis to ensure that the delinquent payments to be included in the Partial Claim reflect the actual escrow funds required for those months and adequate funds to pay escrow bills when due to avoid a future escrow shortage without creating a surplus.

The minimum Partial Claim amount must be no less than $1,000, except for Partial Claims for Home Retention Options associated with a PDMDA.

The Mortgagee must advance funds for the Partial Claim prior to filing a claim for reimbursement.

Mortgagees may include an additional monthly payment to the Arrearage amount to allow time for the Borrower to return the executed documents, and to ensure the

Partial Claim includes all Arrearages accrued prior to the Borrower resuming Mortgage Payments. No other fees or costs may be included in the Partial Claim.

(C) Statutory Maximum for Partial Claims (including Payment Supplement)

Statutory Maximum for Partial Claims refers to the total outstanding balance of all Partial Claims and Payment Supplements and must not exceed 30 percent of the Mortgage's unpaid principal balance, as of the date of Default at the time of payment of the initial Partial Claim and will remain constant for the life of the Mortgage.

The total funds available for a Partial Claim must be calculated per Determining the Maximum Funds Available for a Partial Claim.

When reviewing Borrowers for a Partial Claim, a Streamline Refinance on the same Property and by the same Borrower is not considered a new Mortgage for determining the statutory maximum value for all Partial Claims.

(D) Verification of Previous Partial Claim(s)

For purposes of verifying all previous Partial Claims, the Mortgagee must also verify all Payment Supplements in the total balance of all Partial Claims, if applicable.

The Mortgagee must verify if the Borrower previously received one or more Partial Claim(s) or Payment Supplements and, if applicable, the total balance of all Partial Claims. The Mortgagee must:

- verify through HUD's Single Family Mortgage Asset Recovery Technology (SMART) Integrated Portal (SIP) if the Borrower has previously received a Partial Claim, including reviewing prior case number loan information; and
- if the Borrower has previously received a Partial Claim, the Mortgagee must verify in SIP:
  - the unpaid principal balance at the time of payment of the initial Partial Claim, as reported in the Unpaid Balance Claimed field; and
  - the aggregate total of all Partial Claim(s) paid on the Mortgage.

The Mortgagee must review their records to ensure all previous Partial Claims and Payment Supplements have been submitted to HUD and are reported in SIP. If the Mortgagee is aware of other Partial Claims or Payment Supplements that are not reported in SIP, the Mortgagee must include those amounts in the calculation.

(E) Determining the Maximum Funds Available for a Partial Claim

The Mortgagee must use the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part B: Partial Claim Availability, to determine the maximum funds available for a Partial Claim.

(F) Interest on Partial Claims

No interest will accrue on the Partial Claim.

(G) Standalone Partial Claim

(1) Notification to Borrower

When offering a Standalone Partial Claim, the Mortgagee must advise the Borrower that they may be eligible for a Permanent Home Retention Option that may be able to reduce the Mortgage Payment.

(2) Borrower Eligibility

The Mortgagee must ensure the Borrower:

- has sufficient Partial Claim funds to reinstate the Mortgage, as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part C;
- the Borrower attests they can resume Mortgage Payments; and
- successfully completes a TPP.

(3) Compare Monthly P&I for Standalone Partial Claim and Standalone Loan Modification

Where the Borrower attests that they can resume their Mortgage Payment, the Mortgagee must compare the modified P&I for the Standalone Loan Modification amortized for a 30-year term at Market Rate, as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part C, Step 2, to the P&I for the Standalone Partial Claim to preserve Partial Claim funds.

The Mortgagee must determine if the P&I for the Standalone Loan Modification provides a P&I payment that is at least $1 less than the P&I for the Standalone Partial Claim.

- If yes, the Mortgagee must offer the Borrower a Standalone Loan Modification.
- If no, the Mortgagee must offer the Borrower a Standalone Partial Claim.

If the Borrower does not meet the requirements for a Standalone Partial Claim, the Mortgagee must evaluate the Borrower for a Permanent Home Retention Option that provides payment reduction, starting with the Standalone Loan Modification.

(H) Partial Claims as Part of Combination Loan Modification and Partial Claim

The Mortgagee must ensure:

- the Borrower meets the requirements for a Combination Loan Modification and Partial Claim; and

- the amount of the Partial Claim as part of the Combination Loan Modification and Partial Claim does not exceed the amount required to provide the target payment reduction.

(I) Payment of Partial Claim

HUD will not require payment on the Partial Claim until the first of the following events occurs:

- the maturity of the Mortgage;
- the sale or transfer of the Property, except for non-borrowers who acquired title through an exempted transfer;
- the assumption of the Mortgage, except for non-borrowers who acquired title through an exempted transfer;
- the Payoff of the Mortgage, except that HUD will agree to subordinate the Partial Claim Note to a Streamline Refinance; or
- if provided for under the Partial Claim Note, the termination of FHA insurance.

HUD does not prohibit partial or total payment on the Partial Claim at any time prior to the due date for the Partial Claim.

(J) Partial Claim Documents

(1) Definition

Partial Claim Documents refers to a Partial Claim promissory Note and Subordinate Mortgage, or, for a Payment Supplement, the Payment Supplement promissory Note, Payment Supplement Agreement, and Payment Supplement Subordinate Mortgage.

(2) Partial Claim or Payment Supplement Promissory Note and Subordinate Mortgage

The Mortgagee must prepare the promissory Note and subordinate Mortgage as follows:

- the promissory Note must be executed with the name of the Secretary;
- the subordinate Mortgage must be prepared and recorded; and
- the promissory Note and subordinate Mortgage must include:
  - the full FHA Case Number;
  - the provisions of HUD's model promissory Note and subordinate Mortgage or a substantially similar document; and
  - any amendments as required by state or federal law or regulations.

The Mortgagee must provide the Borrower with a promissory Note and subordinate Mortgage to be signed by the Borrower and recorded by the Mortgagee.

(3) Execution of Partial Claim Documents after Trial Payment Plan

The Mortgagee must ensure that the Borrower has successfully completed a TPP before executing the promissory Note and subordinate Mortgage.

(4) Recordation of Partial Claim Documents

The Mortgagee must submit executed Partial Claim security instruments to the recording jurisdiction for recordation within 10 business days from the date the Mortgagee receives the executed documents from the Borrower or, where HUD execution is required, receipt from HUD.

The Mortgagee must submit the security instruments for recordation before filing the claim with HUD.

The Mortgagee must ensure that the recordation of the Partial Claim security instruments does not jeopardize the first lien status of the FHA-insured Mortgage. There is no lien priority requirement for the filing of a Partial Claim or Payment Supplement.

(5) Required Documentation

The Mortgagee must retain the following in the Servicing File and the Claim File:

- a copy of the executed promissory Note and subordinate Mortgage;
- evidence that the Mortgage was submitted timely for recording; and
- the date the Mortgagee received the executed Partial Claim Documents from the Borrower and the date the subordinate Mortgage was sent to be recorded.

(6) Delivery of Partial Claim Documents to HUD

The Mortgagee must deliver to HUD:

- no later than 60 Days from the execution date, the original promissory Note;
- no later than six months from the execution date, the recorded subordinate Mortgage; and
- with each delivery of Partial Claim Documents, the Mortgagee must include a cover letter with the FHA case number for the documents that are being delivered.

(7) Missing and Unacceptable Partial Claim Documents

The Mortgagee may use SIP to determine if Partial Claim Documents were received and accepted by HUD.

The Mortgagee must make corrections to satisfy the document delivery requirements for complete and accurate Partial Claim Documents if the Partial

Claim Documents received from the Mortgagee contain deficiencies or discrepancies.

If HUD indicates that Partial Claim Documents are missing, but the Mortgagee's records confirm they were delivered to HUD, the Mortgagee must provide a signed affidavit that the Partial Claim Documents were delivered to HUD and include:

- proof of original delivery with a copy of the list of contents with the FHA case number(s) for the documents that were delivered; and
- copies of the missing Partial Claim Documents, with a list of documents included.

If the original Partial Claim promissory Note is lost prior to submission to HUD, the Mortgagee must deliver a lost note affidavit to HUD's Loan Servicing Contractor no later than 60 Days from the date the Borrower executed the Partial Claim security instruments.

The lost note affidavit must be acceptable under state law, and must include the following:

- the FHA case number;
- the Borrower(s)' name;
- the FHA-insured property address;
- the original Note amount;
- the date the Borrower executed the Partial Claim security instruments; and
- a statement that the Mortgagee has exhausted all efforts to locate the original Partial Claim promissory Note executed by the Borrower.

Required Documentation

The Mortgagee must retain in the Servicing File and Claim File a copy of the lost note affidavit and all related documentation provided to HUD.

(8) Requests for Extensions of Time for Delivery of Partial Claim Documents

(a) Standard

The Mortgagee may request an extension of time by submitting the request to HUD via EVARS when:

- the Mortgagee can demonstrate timely submission of Recordation of Partial Claim Documents; and
- Partial Claim Document delivery has been delayed due to events beyond the Mortgagee's control.

HUD will not approve an extension of time for submission of the promissory Note.

(b) Required Documentation

The Mortgagee must retain any approved extensions received from HUD in the Servicing File and the Claim File, if applicable.

(9) Failure to Provide Partial Claim Documents

When the Mortgagee fails to provide HUD with the promissory Note and recorded subordinate Mortgage within the required time frames and any approved extensions, HUD may require reimbursement of the full amount of the Partial Claim funds and any incentive fee.

Upon reimbursement of the full amount of the Partial Claim funds, the Mortgagee must:

- not reverse the application of the Partial Claim funds to the Borrower's Mortgage and must not submit a new claim;
- continue to service the Mortgage according to the terms of the Partial Claim or a Payment Supplement; and
- only pursue repayment of the Partial Claim funds from the Borrower under the original terms of the promissory Note and subordinate Mortgage.

If the security instrument has been recorded, the Mortgagee must provide an assignment to HUD to execute the assignment and the Partial Claim Documents to the Mortgagee. Upon receipt of the executed assignment, the Mortgagee must submit the assignment to the jurisdiction for recordation within 30 business days from the date the Mortgagee receives the executed document from HUD.

(K) Reconciliation of Partial Claim Proceeds to Promissory Note Amounts

If the Mortgagee miscalculates the Partial Claim amount, resulting in an overpayment to the Mortgagee, the Mortgagee must remit the overpaid amount immediately to Pay.gov.

In the event the Mortgagee claimed less than the actual Partial Claim promissory Note amount, the Mortgagee must absorb the cost of the miscalculation.

The Mortgagee must include their review process for ensuring the accurate calculation of Partial Claims in their required QC Plan.

(L) Servicing of Partial Claims

The Mortgagee remains responsible for servicing the Partial Claim until the debt and security instruments are legally recorded in the appropriate jurisdiction and delivered to HUD.

(M) Notification to HUD

Mortgagees must notify HUD when the first Mortgage is being paid in full or refinanced. HUD's Loan Servicing Contractor must be contacted to request a payoff quote on the outstanding Partial Claim.

v. Loan Modifications

(A) Definitions

A Loan Modification refers to a Standalone Loan Modification or a Loan Modification provided as part of a Combination Loan Modification and Partial Claim, which provides a permanent change in one or more terms of a Borrower's Mortgage.

A Standalone Loan Modification refers to a permanent change in one or more terms of a Borrower's Mortgage to resolve the outstanding Arrearage by re-amortizing the total outstanding debt at the Market Rate and extending the term.

A Combination Loan Modification and Partial Claim refers to a permanent change in one or more terms of a Borrower's Mortgage to resolve the outstanding Arrearage by re-amortizing the total outstanding debt at the Market Rate and extending the term and may include a principal deferment when required.

(B) Standard

The Mortgagee must ensure that the Loan Modification fully reinstates the Mortgage, complies with the interest rate and modified principal balance provisions below, and must only capitalize Arrearages, as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part A: Arrearages.

The Mortgagee must perform an escrow analysis to ensure that the amount to be capitalized includes the delinquent escrow payments and adequate funds to pay escrow bills when due to avoid a future escrow shortage without creating a surplus.

No other costs may be capitalized in the Loan Modification.

The Mortgagee must ensure that Hazard Insurance and Flood Insurance, where required, are updated for the modified mortgage amount.

(C) Exemption for Mortgages that Cannot be Modified

Mortgagees who service Mortgages funded in connection with mortgage revenue bonds that are restricted by the Internal Revenue Code (IRC) are exempt from providing a Loan Modification if the term cannot be extended or the interest rate cannot be modified.

(D) Interest Rate

The Mortgagee must ensure that any modified loan is a fixed rate Mortgage.

At the Mortgagee's discretion, the Mortgagee may reduce Note interest rates below Market Rate; however, Discount Points associated with rate reductions are not reimbursable. When increasing Note interest rates, the Mortgagee must calculate the maximum interest allowable as the Market Rate.

(1) Market Rate

Market Rate is a rate that is no more than 25 bps for a 30-year loan modification or 50 bps for a 40-year loan modification greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1 percentage point (0.125 percent), as of the date the Borrower is offered the TPP. The Mortgagee must first round the PMMS Rate to the nearest one-eighth of 1 percentage point (0.125 percent) before calculating the rate at 25 bps or 50 bps greater than the PMMS Rate.

(2) Market Rate Resources

The Weekly PMMS results are published on the Freddie Mac website.

(E) Modified Loan Term

The Mortgagee must re-amortize the total unpaid amount due over 360 months or 480 months from the due date of the first installment required under the modified FHA-insured Mortgage.

The term of a Standalone Loan Modification may be less than 360 months if:

- requested by the Borrower; and
- a term that is less than 360 months does not result in the modified PITI being greater than the target monthly payment.

(F) Standalone Loan Modifications

(1) 30-Year Standalone Loan Modification

(a) Borrower Attests They Can Resume Mortgage Payments

The Mortgagee is not required to meet the minimum 25 percent P&I reduction for Borrowers who attest that they can resume their current Mortgage Payment and the P&I portion of the modified Mortgage Payment for the 30-year Standalone Loan Modification is at least $1 less than the P&I for the Standalone Partial Claim as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part C.

If the Borrower affirms that they can make the modified Mortgage Payment, the Mortgagee must offer the 30-year Standalone Loan Modification.

(b) Borrower Attests They Require Payment Reduction

The Mortgagee must determine if a 30-year Standalone Loan Modification can achieve a minimum 25 percent reduction to the P&I portion of the Mortgage Payment using the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part D.

If a 25 percent reduction can be achieved at the Market Rate, the Mortgagee must offer the Borrower a 30-year Standalone Loan Modification.

If a 25 percent reduction cannot be achieved, the Mortgagee must review the Borrower for a 40-year Standalone Loan Modification.

(2) 40-Year Standalone Loan Modification

The Mortgagee must determine if a 40-year Standalone Loan Modification can achieve a minimum 25 percent reduction to the P&I portion of the Mortgage Payment using the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part D.

If a 25 percent reduction can be achieved at the Market Rate, the Mortgagee must offer the Borrower a 40-year Standalone Loan Modification.

If a 25 percent reduction cannot be achieved and the Borrower has a minimum of $1,000 in Partial Claim funds available, the Mortgagee must review the Borrower for a Combination Loan Modification and Partial Claim.

If the Borrower does not have a minimum of $1,000 in Partial Claim funds available, the Mortgagee must offer the Borrower a 40-year Standalone Loan Modification, even if the payment increases.

(3) Outside of the Waterfall Loan Modification

The Mortgagee must ensure that all requirements are met for Outside of the Waterfall Loan Modifications (OWL).

(G) Combination Loan Modification and Partial Claim

The Mortgagee must use the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part E, to determine the loan amount and Partial Claim funds required for a Combination Loan Modification and Partial Claim.

The P&I reduction for a Combination Loan Modification and Partial Claim may exceed 25 percent, if required to meet the minimum $1,000 Partial Claim amount.

(1) 30-Year Combination Loan Modification and Partial Claim

The Mortgagee must determine if a 30-year Combination Loan Modification and Partial Claim can achieve a 25 percent reduction to the P&I portion of the Mortgage Payment. The Mortgagee must ensure the Partial Claim is no more than what is needed to achieve a 25 percent reduction to the P&I and may include principal deferment if required to achieve a 25 percent reduction.

If the 25 percent reduction is achieved, the Mortgagee must offer the Borrower a 30-year Combination Loan Modification and Partial Claim.

If the 25 percent reduction cannot be achieved, the Mortgagee must review the Borrower for a 40-year Combination Loan Modification and Partial Claim.

(2) 40-Year Combination Loan Modification and Partial Claim

The Mortgagee must determine if a 40-year Combination Loan Modification and Partial Claim can achieve a 25 percent reduction to the P&I portion of the Mortgage Payment. The Mortgagee must ensure the Partial Claim is no more than what is needed to achieve a 25 percent reduction to the P&I and may include principal deferment if required to achieve a 25 percent reduction.

The Mortgagee must offer the 40-year Combination Loan Modification and Partial Claim with the maximum reduction to the P&I portion of the Mortgage Payment that can be achieved up to 25 percent and not less than 15 percent.

If a minimum 15 percent reduction to the P&I portion of the Mortgage Payment cannot be achieved, the Mortgagee must review the Borrower for the Payment Supplement.

(H) FHA Mortgage Insurance Coverage and Mortgage Insurance Premium

When the Loan Modification has been processed in accordance with HUD requirements, HUD will extend FHA mortgage insurance coverage to the new principal balance and modified maturity date. FHA insurance will remain in force until the Mortgage has been paid in full, canceled, or terminated. The amount of MIP will continue to be based on the scheduled unpaid principal balance of the original Mortgage, without taking into consideration delinquencies or prepayments.

vi. Payment Supplement

(A) Definitions

The Payment Supplement is a loss mitigation option that utilizes Partial Claim funds to bring the Mortgage current coupled with the subsequent provision of a Monthly Principal Reduction (MoPR) applied toward the Borrower's principal due each month for a period of 36 months to provide payment relief without modification of the

Mortgage. The Payment Supplement is evidenced by a non-interest bearing Note, Subordinate Mortgage, and Payment Supplement Agreement, which is a rider to and is incorporated by reference into the Payment Supplement promissory Note, given in favor of the Secretary, representing the total of all funds paid from the Mutual Mortgage Insurance Fund (MMIF) to bring the Mortgage current and then temporarily pay a portion of principal owed by the Borrower each month to reduce the Borrower's monthly Mortgage Payment.

The Monthly Principal Reduction (MoPR) is the amount of principal reduction that the Mortgagee will disburse monthly from the Payment Supplement Account and apply to the payment of principal due on the Borrower's FHA-insured first Mortgage during the Payment Supplement Period.

The Minimum Monthly Principal Reduction (Minimum MoPR) must be equal to or greater than 5 percent of the P&I portion of the Borrower's monthly Mortgage Payment as of the date the Payment Supplement Period begins. The Minimum MoPR must also be no less than $20 per month as of the date the Payment Supplement Period begins.

Payment Supplement Documents refer to a non-interest bearing Note, Subordinate Mortgage, and a Payment Supplement Agreement, which is a rider to and is incorporated by reference into the Payment Supplement promissory Note, given in favor of the Secretary.

The Payment Supplement Period is a 36 month period during which the Mortgagee applies the MoPR to temporarily reduce the Borrower's monthly Mortgage Payment.

The Payment Supplement Account is a separate, non-interest bearing, insured custodial account that holds the balance of the funds paid by FHA for the purpose of implementing the Payment Supplement, clearly marked as holding funds for the Payment Supplement, and kept separate from funds associated with the FHA-insured Mortgage, including escrow funds.

(B) Eligibility

The Mortgagee must ensure that:

- the Mortgage is a fixed rate Mortgage;
- sufficient Partial Claim funds are available to bring the Mortgage current and to fund the MoPR using the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part B and Part F;
- the Borrower meets the requirements for Loss Mitigation during Bankruptcy Proceedings;
- the principal portion of the Borrower's first monthly Mortgage Payment after the Mortgage is brought current will be greater than or equal to the Minimum MoPR;

- the Borrower completes the Borrower Affordability Attestation indicating they have the ability to make the Borrower's portion of the monthly Mortgage Payment; and
- the Borrower completes a TPP.

The Borrower is not eligible for a new Payment Supplement until 36 months after the date the Borrower previously executed Payment Supplement Documents.

(C) Standard

The Mortgagee must first advance funds for all amounts needed to bring the Mortgage current.

The maximum MoPR is the lesser of a 25 percent P&I reduction for 36 months, or the principal portion of the monthly Mortgage Payment as of the date the Payment Supplement Period begins.

The Mortgagee may only submit one claim for the Payment Supplement. The Mortgagee must submit the claim for the Payment Supplement no later than 60 Days after the date of execution of the Payment Supplement Documents by the Borrower. The claim must include:

- all amounts needed to bring the Mortgage current before the start of the Payment Supplement Period; and
- the total amount required for all estimated MoPR payments for the full Payment Supplement Period.

The Mortgagee must retain the balance of the MoPR funds in the Payment Supplement Account for the benefit of the Borrower until disbursement of the funds:

- for application of the MoPR; or
- for remittance to HUD.

The Payment Supplement Period is 36 months.

For each month of the Payment Supplement Period, the Mortgagee must only disburse funds from the Payment Supplement Account to apply the MoPR to the principal portion of the monthly Mortgage Payment after the Mortgagee has received and accepted, at a minimum, the Borrower's portion of the monthly Mortgage Payment. The Mortgagee must only apply the MoPR during the 36 months of the Payment Supplement Period.

Additional funds received from the Borrower that exceed the minimum portion of the Borrower's required payment do not impact the application of the MoPR. Any additional payment made by the Borrower must not be comingled with the MoPR or funds held in the Payment Supplement Account.

The Mortgagee must not recalculate the MoPR during the Payment Supplement Period.

The Mortgagee must not charge the Borrower any additional fees or interest for the Payment Supplement.

(D) Payment Supplement Calculations

To calculate the amount of the Partial Claim the Mortgagee submits to HUD for the Payment Supplement, the Mortgagee must use the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part F: Payment Supplement Calculations.

(1) Step 1 – Calculate Partial Claim Availability

The Mortgagee must determine the maximum Partial Claim amount available for the Payment Supplement. The Payment Supplement, in addition to any other existing Partial Claim, must not exceed the Statutory Maximum for Partial Claims.

The Mortgagee must use the calculations in Appendix 4.0 – FHA Home Retention Options Calculations, Part B: Partial Claim Availability, to determine the maximum funds available for a Partial Claim.

(2) Step 2 – Calculate Amount Required to Reinstate the Mortgage Using a Payment Supplement

The Mortgagee must calculate the amounts needed to bring the Mortgage current as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part A: Arrearages.

Mortgagees may include an additional monthly payment in calculating the amount needed to bring the Mortgage current, as the payment will be past due before the Borrower returns the completed Payment Supplement Documents.

(3) Step 3 – Calculate Partial Claim Funds Available for MoPR

The Mortgagee must determine the amount of Partial Claim funds available for the MoPR.

The Mortgagee must subtract the amount needed to bring the Mortgage current (calculated in Step 2) from the Borrower's total Partial Claim funds available (calculated in Step 1).

If the amount needed to bring the Mortgage current (Step 2) is greater than the Borrower's total Partial Claim funds available (calculated in Step 1), the Borrower is not eligible for the Payment Supplement and the Mortgagee must offer the Borrower the lowest monthly P&I payment that can be achieved under the Combination Loan Modification and Partial Claim.

(4) Step 4 – Calculate Maximum MoPR

(a) Step 4.A

The Mortgagee must calculate the amount needed to reduce the P&I portion of the Borrower's monthly Mortgage Payment by 25 percent.

(b) Step 4.B

The Mortgagee must determine the maximum MoPR.

The maximum MoPR is the lesser of the amount calculated in Step 4.A or the principal portion only of the Borrower's monthly Mortgage Payment as of the date the Payment Supplement Period begins after the Mortgage is brought current.

(5) Step 5 – Calculate the MoPR

(a) Step 5.A

The Mortgagee must determine if the amount of Partial Claim funds available for the MoPR (calculated in Step 3) is greater than or equal to the maximum MoPR (calculated in Step 4.B) for 36 months.

- If the Borrower has sufficient Partial Claim funds, the amount of the MoPR is the MoPR (calculated in Step 4.B) for the 36 months of the Payment Supplement Period. Proceed to Step 6.
- If the Borrower does not have sufficient Partial Claim funds for the maximum MoPR for 36 months, the Mortgagee must proceed to Step 5.B.

(b) Step 5.B

If the Borrower does not have sufficient Partial Claim funds available for the maximum MoPR for 36 months (calculated in Step 5.A), the Mortgagee must divide the amount of Partial Claim funds available for the MoPR (calculated in Step 3) by 36 months and proceed to Step 6.

(6) Step 6 – Payment Reduction Test

The Mortgagee must determine if the MoPR will result in no less than the Minimum MoPR for a Payment Supplement Period of 36 months where the MoPR is only applied to the principal.

- If the MoPR (calculated in Step 5) reduces the P&I portion of the Borrower's monthly Mortgage Payment by no less than the Minimum MoPR, the Mortgagee must proceed to Step 7.
- If the MoPR (calculated in Step 5) fails to reduce the P&I portion of the Borrower's monthly Mortgage Payment by the Minimum MoPR, the

Borrower is ineligible for the Payment Supplement. The Mortgagee must offer the Borrower the lowest monthly P&I payment that can be achieved under:

- a 40-year Combination Loan Modification and Partial Claim; or
- a Standalone Partial Claim.

(7) Step 7 – Compare Payment Reduction with Available Permanent Home Retention Options

If the MoPR (calculated in Step 5) achieves the Minimum MoPR, the Mortgagee must compare the proposed Borrower's portion of the P&I monthly payment under the Payment Supplement with the Borrower's proposed P&I monthly payment under the 40-year Combination Loan Modification and Partial Claim to determine the greater payment reduction.

If the Borrower is able to achieve a lower P&I monthly payment with the 40-year Combination Loan Modification and Partial Claim, the Mortgagee must offer the Borrower the 40-year Combination Loan Modification and Partial Claim.

If the Borrower is not able to achieve a lower P&I monthly payment utilizing the 40-year Combination Loan Modification and Partial Claim, the Mortgagee must offer the Borrower the Payment Supplement.

If the Borrower affirms that they can make the offered payment, the Mortgagee must complete that option.

The Mortgagee must document the Servicing File with the option offered to the Borrower.

(E) Mortgages with an Interest Rate Buydown and Mortgages Affected by the Servicemember Civil Relief Act

For Mortgages with an interest rate buydown and Mortgages affected by the Servicemembers Civil Relief Act (SCRA), the Mortgagee must:

- calculate the MoPR based on the P&I portion of the monthly Mortgage Payment as of the date the Payment Supplement Period begins:
  - based on the Note rate of the Mortgage without the temporary interest rate buydown, if applicable; and
  - based on the Note rate of the Mortgage without the SCRA protection, if applicable;
- ensure the MoPR does not exceed the principal portion of the monthly Mortgage Payment;
- ensure the MoPR does not change during the Payment Supplement Period; and
- ensure the Payment Supplement Period remains 36 months.

(F) Payment Supplement Documents

(1) Standard

The Mortgagee must prepare the Payment Supplement Documents using HUD's model Payment Supplement Documents or substantially similar documents. The Mortgagee must ensure that:

- the Payment Supplement promissory Note and Payment Supplement Agreement are executed in the name of the Secretary;
- all Payment Supplement Documents include the full FHA case number, are legally enforceable, and comply with all applicable laws;
- the Payment Supplement Documents comply with all requirements for Partial Claim Documents; and
- the Payment Supplement subordinate Mortgage is recorded.

The Mortgagee must provide the Borrower with the Payment Supplement Documents to be signed. The Borrower is required to sign and return the Payment Supplement Documents before the Mortgagee brings the Mortgage current and applies the first MoPR.

(2) Document Delivery Requirements

The Mortgagee must deliver the Payment Supplement Documents to HUD's Loan Servicing Contractor in accordance with Partial Claim Documents.

(G) Payment Supplement Account

(1) Standard

The Mortgagee must segregate the funds paid by FHA for the MoPR in the Payment Supplement Account. The Payment Supplement Account must:

- be deposited with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA);
- not limit the Mortgagee's access to funds for the MoPR, require an advance notice of withdrawal, or require the payment of a withdrawal penalty;
- clearly identify the funds being held in that account as being derived from and held as part of the Payment Supplement Documents executed by the Borrower as part of the Payment Supplement loss mitigation action being undertaken by the Mortgagee; and
- ensure that the funds in the Payment Supplement Account are not comingled with any funds held in accounts restricted by agreements with Ginnie Mae.

Neither the Mortgagee nor the Borrower has any discretion in the use and application of the funds from the Payment Supplement.

Mortgagees utilizing a Trust Clearing Account must withdraw the portion that is to be deposited into the Payment Supplement Account within 48 hours of receiving the Payment Supplement funds from HUD.

Mortgagees are not prohibited from holding MoPR funds for multiple Mortgages in a single account for implementing the Payment Supplement; however, the Mortgagee must not commingle funds in the Payment Supplement Account, even temporarily, with any funds held in accounts restricted by agreements with Ginnie Mae, escrow funds, or funds used for the Mortgagee's general operating purposes or any other purpose.

If the Borrower enters into bankruptcy during the Payment Supplement Period, the Mortgagee must continue to apply the MoPR unless otherwise required or permitted by law. If so required, the Mortgagee must seek court approval for the Payment Supplement and the Borrower's reaffirmation of the Partial Claim debt. Any additional loss mitigation offered during bankruptcy must be in accordance with Loss Mitigation during Bankruptcy Proceedings.

(2) Interest on Payment Supplement Account

Neither the Mortgagee nor the Borrower may earn interest on a Payment Supplement Account.

(H) Required Documentation

The Mortgagee must retain the following in the Servicing File and the Claim File:

- documentation of the amount used to bring the Mortgage current at the start of the Payment Supplement Period;
- documentation of the amount of each MoPR disbursed from the Payment Supplement Account applied to the principal due on the Borrower's monthly Mortgage Payment;
- a copy of the executed Payment Supplement Documents;
- the date the Mortgagee received the executed Payment Supplement Documents from the Borrower and the date the subordinate Mortgage was sent to be recorded; and
- evidence that the subordinate Mortgage was submitted timely for recording.

(I) Disclosures to Borrower

The Mortgagee must send the Borrower written disclosures annually and between 60 and 90 Days before the expiration of the Payment Supplement Period.

Mortgagees may develop specific disclosure documents or may use or modify FHA's model Annual Payment Supplement Disclosure and Final Payment Supplement

Disclosure documents. Mortgagees must ensure that any disclosures comply with all applicable laws.

(1) Annual Payment Supplement Disclosure

The Mortgagee must send the Borrower a written disclosure annually, at minimum, during the Payment Supplement Period, including:

- information about the Payment Supplement, including:
  - the amount used to bring the Mortgage current at the start of the Payment Supplement;
  - the accounting of the MoPR funds disbursed from the Payment Supplement Account and applied each month during the Payment Supplement Period; and
  - the funds remaining in the Payment Supplement Account;
- the date of expiration of the Payment Supplement Period;
- the total Payment Supplement Note amount;
- the Borrower's current monthly Mortgage Payment without MoPR and an explanation that if escrow amounts change, future payments may increase; and
- a statement that the Borrower may voluntarily terminate the Payment Supplement and resume their full monthly Mortgage Payment without the MoPR and any remaining funds in the Payment Supplement Account will be returned to HUD to reduce the total outstanding Payment Supplement balance associated with the Borrower's Payment Supplement Documents.

The Mortgagee may include the disclosure as part of, or with, a monthly or annual billing statement. The disclosure may be sent electronically.

(2) Final Disclosure Prior to Expiration of the Payment Supplement

The Mortgagee must send the Borrower a written disclosure between 60 and 90 Days before the expiration of the Payment Supplement Period, including information about:

- the expiration of the Payment Supplement Period; and
- the accounting of the Payment Supplement, including:
  - the total Payment Supplement Note amount;
  - the amount used to bring the Mortgage current at the start of the Payment Supplement;
  - the accounting of the MoPR funds disbursed from the Payment Supplement Account and applied each month for the Payment Supplement Period;
  - if applicable, any funds remaining in the Payment Supplement Account and a statement that FHA will use these funds to reduce the balance on the amount owed by the Borrower under the Payment Supplement Documents; and

- the Borrower's estimated first monthly Mortgage Payment following the expiration of the Payment Supplement.

(J) Subsequent Default during Payment Supplement Period

If a Borrower is 30 Days or more past due or in Imminent Default during the Payment Supplement Period, the Mortgagee must review the Borrower in accordance with the Loss Mitigation Program. The permanent Loss Mitigation Option will determine if:

- the MoPR will continue to be applied for the remainder of the Payment Supplement Period without changes to the Payment Supplement Agreement; or
- the Payment Supplement will be terminated.

The Mortgagee may provide a Forbearance prior to evaluating the Borrower for Loss Mitigation Home Retention Options, and must not terminate the Payment Supplement Period during the Forbearance.

(1) Mortgage Reinstatement without a Permanent Loss Mitigation Option – MoPR Continues

If the Borrower, without the use of a permanent loss mitigation option, makes their portion of the missed monthly Mortgage Payments, the MoPR must be disbursed from the Payment Supplement Account and then applied to the missed payments as they are made. For these missed payments, the MoPR must be applied only to the principal portion of the missed Mortgage Payment and for the exact amount that would have been applied for an on-time payment, including when the Mortgage is brought current through payments made on a Repayment Plan or a Forbearance.

The MoPR must be applied for the remainder of the Payment Supplement Period as the Borrower makes each required payment.

(2) Mortgage Reinstatement with a Standalone Partial Claim – MoPR Continues

If the Borrower requires a new loss mitigation option to reinstate their Mortgage, the Mortgagee must first evaluate the Borrower for an additional Standalone Partial Claim to bring the Mortgage current.

A Borrower may receive no more than two Standalone Partial Claims to reinstate the Mortgage during the Payment Supplement Period.

The Mortgagee must determine the amount of funds needed for the Standalone Partial Claim by:

- calculating the amount needed to bring the Mortgage current, per the requirements for a Standalone Partial Claim; and

- reducing the amount needed to bring the Mortgage current by the MoPR for each month it was not applied due to missed payments by the Borrower.

If the Borrower has sufficient additional Partial Claim funds available, the Mortgagee must:

- ensure the Borrower attests they can resume their portion of the monthly Mortgage Payment;
- ensure all requirements in accordance with a Standalone Partial Claim are met; and
- prepare and send the Borrower the documents for a Standalone Partial Claim to reinstate the Mortgage.

Upon receipt of the executed Standalone Partial Claim documents from the Borrower, the Mortgagee must:

- disburse and then apply funds from the Payment Supplement Account to cover the MoPR for each month it was not applied due to missed payments by the Borrower; and
- advance the funds from the Standalone Partial Claim necessary to reinstate the Mortgage.

For missed payments, the MoPR must be applied only to the principal portion of the missed payment and for the exact amount that would have been applied for an on-time payment. After the Mortgage is reinstated, the Mortgagee must resume applying the MoPR.

The Payment Supplement Period will not be extended beyond the original term set in the Payment Supplement Agreement.

(3) Mortgage Reinstatement with Other Permanent Loss Mitigation Option – MoPR Terminates

If the Borrower cannot bring the Mortgage current through an additional Standalone Partial Claim, the Mortgagee must:

- evaluate the Borrower for the available Permanent Home Retention Options or OWL;
- terminate the Payment Supplement and application of the MoPR upon receipt of the new executed loss mitigation documents;
- send the Borrower documentation that the Payment Supplement has been terminated and a detailed account of how the Payment Supplement funds were applied;
- no later than 30 Days after the date the Payment Supplement was terminated, remit any remaining funds from the Payment Supplement Account to Pay.gov; and
- report the termination of the Payment Supplement through SFDMS.

(4) Mortgage Cannot Be Reinstated – MoPR Terminates

For Borrowers who have not completed the Payment Supplement Period and cannot reinstate their Mortgage, the Mortgagee must ensure the following requirements are met, as applicable.

(a) Pre-Foreclosure Sales

In addition to the requirements for a PFS, the Mortgagee must:

- proceed with the PFS requirements under Pre-Foreclosure Sale;
- prior to execution of the Approval to Participate (ATP) agreement (form HUD-90045, *Approval to Participate Pre-foreclosure Sale Procedure Property Sales Information Property Occupancy & Maintenance*), provide the Borrower with a disclosure statement including:
  - the Payment Supplement will be terminated upon receipt of the executed ATP and the Mortgagee will not advance funds to cover the MoPR during the PFS marketing period;
  - the amount of the Partial Claim that was used to bring the Mortgage current at the start of the Payment Supplement Period;
  - the total amount of funds that were disbursed from the Payment Supplement Account for MoPR payments; and
  - the amount of individual MoPR payments and the months for which they were applied;
- terminate the Payment Supplement upon receipt of the executed ATP;
- ensure that no funds remaining in the Payment Supplement Account are returned to the Borrower;
- ensure that the funds remaining in the Payment Supplement Account are not used as a credit to the first Mortgage;
- no later than 30 Days after the date of execution of the ATP, remit all remaining funds in the Payment Supplement Account to Pay.gov;
- instruct the Closing Agent to pay off the outstanding amount due under the Payment Supplement Note and other Partial Claims, if any, at closing to Pay.gov; and
- no later than 45 Days after the date of termination of the Payment Supplement, upload the final accounting of the Payment Supplement into SIP.

(b) Deed-in-Lieu of Foreclosure, Foreclosure Sales, and CWCOT

In addition to the requirements for DIL, Foreclosures, and CWCOT, the Mortgagee must:

- terminate the Payment Supplement when the sale is completed or the deed is transferred;

- ensure that no funds remaining in the Payment Supplement Account are returned to the Borrower;
- ensure that the funds remaining in the Payment Supplement Account are not used as a credit to the first Mortgage; and
- no later than 30 Days after the date the sale is completed or the deed is transferred, remit all remaining funds in the Payment Supplement Account to Pay.gov; and
- no later than 45 Days after the date the sale is completed or the deed is transferred, upload the final accounting of the Payment Supplement into SIP.

(K) Completion or Termination of the Payment Supplement

A Payment Supplement is completed or terminated upon the earlier of:

- the end date of the Payment Supplement Period;
- the application of 36 MoPRs; or
- early termination of the Payment Supplement.

No later than 30 Days after the date of the completion or termination of the Payment Supplement, the Mortgagee must remit any funds remaining in the Payment Supplement Account to Pay.gov.

(1) Early Termination of the Payment Supplement

(a) Voluntary Termination Request

The Mortgagee must terminate the Payment Supplement upon Borrower request if the Borrower signs a document affirming they can resume their full monthly Mortgage Payment without the MoPR and that they no longer wish to receive the MoPR.

The Mortgagee must send the Borrower documentation that the Payment Supplement has been terminated and a detailed account of how the Payment Supplement funds were applied.

(b) Permanent Home Retention Action Completed

The Mortgagee must terminate the Payment Supplement when any subsequent Permanent Home Retention Option is executed by all required parties, except for a Standalone Partial Claim.

(c) PFS, DIL, Foreclosure, and CWCOT

The Mortgagee must terminate the Payment Supplement upon receipt of an executed ATP for PFS or when the foreclosure sale, CWCOT sale, or transfer of deed is completed.

(d) Transfers and Assumptions

The Payment Supplement is non-transferrable and not assignable to a new Borrower. Upon approval by the Mortgagee of the transfer or assumption, or when the Mortgagee receives actual or constructive knowledge of the transfer of ownership, the Mortgagee must terminate the Payment Supplement.

(e) Sale (non-PFS) or Refinance

If the Property is being sold or the Mortgage is being refinanced, the Mortgagee must:

- provide the Payment Supplement payoff statement upon request; and
- terminate the Payment Supplement upon completion of the sale or refinance.

(2) Final Accounting of Payment Supplement

No later than 45 Days after the date of completion or termination of the Payment Supplement, the Mortgagee must:

- upload a final accounting of the Payment Supplement in SIP; and
- input the amount of any funds remitted to HUD.

The Mortgagee is not permitted to submit the final accounting until after remitting to HUD all remaining funds from the Payment Supplement Account, if any.

The final accounting of the Payment Supplement is a document uploaded in SIP that must include:

- the amount that was used to bring the Mortgage current at the start of the Payment Supplement Period;
- the total amount applied to MoPR payments; and
- the amount of individual MoPR payments and the months for which they were applied.

The Mortgagee must also input in SIP the amount of funds, if any, that have been remitted to Pay.gov in SIP.

(3) Payment Supplement Payoff Statement

The Mortgagee must issue Payment Supplement payoff statements until the final accounting of the Payment Supplement has been submitted to HUD. The Mortgagee must issue Payment Supplement payoff statements upon request and when the Mortgagee receives a payoff request for the Borrower's first Mortgage.

The Mortgagee must include in a Payment Supplement payoff statement, at a minimum:

- the total amount due for the Payment Supplement, including itemizing:

  - the amount that was used to bring the Mortgage current at the start of the Payment Supplement Period; and
  - the total amount applied to MoPR payments;
- a statement that the Payment Supplement is a subordinate lien in the name of the Secretary of HUD;
- instructions that the payoff of funds owed under the Payment Supplement must be remitted to Pay.gov;
- a statement that the payoff amount will change if additional account activity occurs including:
  - any payment made that triggers the application of a MoPR; and
  - returned payments due to a stop payment or insufficient funds; and
- anything required by applicable laws.

The Payment Supplement payoff statement must not include or reflect as a credit any remaining funds in the Payment Supplement Account.

The Payment Supplement payoff statement must not include the balance of any additional outstanding Partial Claims.

If HUD receives a request for a payoff statement of the Payment Supplement prior to receipt of the final accounting from the Mortgagee, HUD will provide the maximum amount available under the Payment Supplement and direct the requestor to contact the Mortgagee for the actual amount required to pay off the Payment Supplement.

After completion or termination of the Payment Supplement and submission of the final accounting from the Mortgagee, the Mortgagee must not issue any payoff statements for the Payment Supplement.

(4) Required Documentation

The Mortgagee must retain a copy of the final accounting and, if applicable, the Payment Supplement payoff statement in the Servicing File.

(L) Errors or Miscalculations of Funds Associated with Payment Supplement

If the Mortgagee makes an error or miscalculates the Payment Supplement that results in:

- a claim overpayment to the Mortgagee, the Mortgagee must remit the overpaid amount immediately to Pay.gov; or
- a claim underpayment to the Mortgagee, the Mortgagee must absorb the cost of the error or miscalculation.

If the Mortgagee makes an error or miscalculates the amount of funds remitted to HUD at the completion or termination of the Payment Supplement resulting in the Mortgagee remitting less than the total remaining funds in the Payment Supplement

Account to HUD, the Mortgagee must remit any remaining outstanding funds in the Payment Supplement Account immediately to Pay.gov.

The Mortgagee must include its review process for ensuring the accurate calculation of Payment Supplement in its QC Plan.

vii. Outside of the Waterfall Loan Modification

(A) Definition

An Outside of the Waterfall Loan Modification (OWL) refers to a permanent change in one or more terms of a Borrower's Mortgage that achieves a minimum reduction to the Borrower's monthly Principal & Interest (P&I) payment where the Borrower has been unresponsive.

(B) Eligibility

The Mortgagee must ensure that:

- the Borrower has been unresponsive to outreach by the Mortgagee during the Default episode;
- final documents to complete a Loss Mitigation Option have not been sent to the Borrower during the Default episode;
- the Borrower has not executed an agreement for a Permanent Home Retention Option or OWL in the past 24 months at the time the Permanent Home Retention Option is executed, except:
  - a Borrower who received a PDMDA Home Retention Option or a COVID-19 Home Retention Option in the past 24 months remains eligible for an OWL; and
- the OWL at the Market Rate will provide at least a $1 reduction to the P&I portion of the Borrower's monthly Mortgage Payment as of the date the OWL begins; and
- the Borrower receives at least one offer for an OWL per Default episode, if eligible.

Non-Borrowers Who Acquired Title through an Exempted Transfer are not eligible for the OWL and must be evaluated for the other Permanent Home Retention Options.

(1) Mortgage Status [Text was deleted in this section.]

The Mortgagee must ensure that:

- the Mortgage is 90 or more Days Delinquent;
- a minimum of four Mortgage Payments have been paid by the Borrower on the Mortgage, except for Disaster Home Retention Options; and
- the first legal action to initiate foreclosure has not been completed.

(2) Property Condition

The Mortgagee must conduct any review it deems necessary, including a property inspection, when:

- the Mortgagee receives notice from the Borrower, local government, or other third parties regarding adverse property condition; or
- the Property may be affected by a disaster event.

If the Mortgagee determines the property condition will adversely impact the long-term use of the Property or ability to support the debt, the Mortgagee is not required to review the Borrower for the OWL.

(C) Standard

The Mortgagee must review eligible Borrowers for an OWL.

The Mortgagee must first review the Borrower for a 30-year Standalone Loan Modification at the Market Rate. If the minimum payment reduction is not met, the Mortgagee must review the Borrower for a 40-year Standalone Loan Modification at the Market Rate.

The Borrower must successfully complete a TPP prior to execution of the Loan Modification documents for the OWL. The Mortgagee must ensure that the requirements for Trial Payment Plans are met.

If the Borrower is eligible, the Mortgagee must prepare and provide a cover letter notifying the Borrower they are eligible for an OWL. The cover letter must explain the OWL and the TPP and include:

- an explanation of terms including the modified Mortgage Payment amount;
- that successful completion of a TPP is required as outlined in the TPP Agreement;
- a statement that no lump sum payment is required;
- a statement that the OWL is contingent on the Mortgagee's review of title to ensure the FHA-insured Mortgage remains in first lien position;
- a statement that the Borrower is encouraged to contact the Mortgagee to discuss other Loss Mitigation Options that may provide further payment reduction and to reinstate their Mortgage;
- information for the Borrower to contact the Mortgagee; and
- a statement that after successful completion of the TPP, the Borrower must sign and return the Loan Modification documents within 30 Days of receipt of the documents.

The Mortgagee does not have to contact the Borrower prior to reviewing the Borrower for the OWL or sending out the cover letter and TPP Agreement for the OWL.

The Borrower must sign and return the Loan Modification documents within 30 Days of receipt of the documents.

(D) Terms

The Mortgagee must ensure that:

- the OWL at the Market Rate will provide at least a $1 reduction to the P&I portion of the Borrower's monthly Mortgage Payment as of the date the OWL begins;
- the modified Mortgage is a fixed rate Mortgage;
- the OWL fully reinstates the Mortgage; and
- the OWL only capitalizes Arrearages, as calculated in Appendix 4.0 – FHA Home Retention Options Calculations, Part A: Arrearages.

Mortgagees may include an additional month in the total outstanding debt to be resolved to allow time for the Borrower to return the executed Loan Modification documents before the modified Mortgage Payment begins.

HUD does not provide a model document for the OWL. The Mortgagee must ensure the FHA-insured Mortgage remains in first lien position and is legally enforceable.

(E) Required Documentation

For those Borrowers that were sent an offer for an OWL, copies of the cover letter, TPP Agreement, and Loan Modification documents must be retained in the Servicing File.

Mortgagees are required to note in each individual Borrower's file if the Borrower does not qualify for the OWL.

viii. Permanent Home Retention Option Failure Is New Default

If the Borrower is in Default following the use of a Permanent Home Retention Option, the Mortgagee must treat this as a new Default episode.

ix. Loss Mitigation Assumption

(A) Definition

Loss Mitigation Assumption refers to the assumption of personal liability for repayment of the Mortgage in accordance with agreed loss mitigation terms by an occupying non-borrower who will be added to the Mortgage or who has acquired a title interest in a Property securing an FHA-insured Mortgage.

(B) Standard

The Mortgagee must ensure that the assumptor meets the criteria for approval of a Loss Mitigation Home Retention Option.

All assumptors must have a valid SSN or EIN or meet the eligibility requirement exception regarding social security numbers.

The Mortgagee must obtain the signature of each non-borrower assumptor on:

- all associated written agreements for the approved Loss Mitigation Option; and
- an assumption agreement that conforms with applicable state law for assumption of personal liability for repayment of the Mortgage in accordance with agreed loss mitigation terms.

(C) Reporting a Loss Mitigation Assumption

The Mortgagee must report Reinstated by Assumptor, Code 21, in SFDMS.

j. Home Disposition Options (11/10/2026)

i. Standard

The Mortgagee must review Borrowers for Home Disposition Options who are unable to sustain the Mortgage with the assistance of a Loss Mitigation Home Retention Option.

The Home Disposition Options include:

- Pre-Foreclosure Sale (PFS); and
- Deed-in-Lieu (DIL).

The Mortgagee must notify the Borrower that they may be able to avoid foreclosure by selling their home with a traditional sale or a PFS Option.

If the Borrower advises that their financial situation has improved during the PFS or DIL process and wants to retain the Property, the Mortgagee must review the Borrower for one additional Loss Mitigation Home Retention Option.

ii. Pre-Foreclosure Sales

(A) Definition

A Pre-Foreclosure Sale (PFS), also known as a Short Sale, refers to the sale of real estate that generates proceeds that are less than the amount owed on the Property and in which the lien holders agree to release their liens and forgive the deficiency balance on the real estate. There are two PFS Options:

- Standard PFS; and
- PFS for Servicemembers.

(B) Requirements for all PFS Options

(1) PFS Outreach Requirements

(a) Form HUD-90035, Information Sheet: Pre-foreclosure Sale Procedure

When the Mortgagee has identified a Borrower as a qualified candidate for a PFS or a Borrower has expressed an interest in participating, the Mortgagee must provide to the Borrower, electronically or by mail, form HUD-90035, *Information Sheet: Pre-foreclosure Sale Procedure,* adding its toll-free or collect telephone number to the form.

(b) Disclosure Requirements for PFS Transactions

Prior to approving the Borrower for the PFS Option, the Mortgagee must notify the Borrower of the following in writing:

- The Mortgage must be three or more full monthly payment due and unpaid (61 Days or more past due) on the date the Mortgagee approves the Borrower's participation in a Standard PFS.
- On the date the PFS for Servicemembers transaction closes, the Mortgage must be in Default status (minimum 31 Days Delinquent).
- Until the PFS transaction has closed, the Borrower must maintain the Property in "ready to show" condition, make basic property repairs, and perform all normal property maintenance activities (e.g., interior cleaning, lawn maintenance, etc.).
  - The Borrower must report all damage and/or repair expenses resulting from fire, flood, or other natural causes immediately to the insurance company and Mortgagee.
- PFS transactions are reported to consumer reporting agencies and will likely affect the Borrower's ability to obtain another Mortgage and other types of credit.
- If the Borrower is a servicemember, it is recommended that the Borrower obtain guidance from their employer regarding the PFS's impact on their security clearance and employment.

Where the Property is encumbered with a PACE obligation, the property sales contract must indicate whether the obligation will remain with the Property or be satisfied by the seller at, or prior to closing. Where the obligation will remain, all terms and conditions of the PACE obligation must be fully disclosed to the buyer in accordance with applicable law (state and local) and made part of the sales contract.

(2) Required Documentation for PFS

The Mortgagee must maintain all required documentation in the Servicing File and the Claim File.

(C) PFS Options

(1) Standard PFS

(a) Definition

A Standard PFS Option is available for Owner-Occupant and Non-Occupant Borrowers and does not require verification of hardship.

(b) Standard

The Mortgagee must ensure that the Owner-Occupant or Non-Occupant Borrower meet the following requirements:

- the Borrower indicates a Financial Hardship affecting their ability to sustain the Mortgage;
- the Borrower must be 61 Days or more Delinquent on the FHA-insured Mortgage as of the date of the Mortgagee's approval; and
- the Borrower must have exhausted or been deemed ineligible for all permanent Loss Mitigation Home Retention Options.

(c) Corporations or Partnerships Requesting PFS Option

The Mortgagee must submit a variance request for HUD approval via EVARS to use the PFS Option when the Property is owned by a corporation or partnership.

(2) PFS for Servicemembers

(a) Definition

A Streamlined PFS for Servicemembers is a Streamlined PFS that may be offered to servicemembers with PCS orders who must relocate to a new duty station at least 50 miles away from their existing residence.

(b) Standard

The Mortgagee must ensure that servicemembers meet the following requirements for a PFS for Servicemembers:

- The servicemember has PCS orders to relocate to a duty station at least 50 miles away from their existing residence and provides the Mortgagee with a copy of such orders.
- The servicemember submits an affidavit certifying that:

- the Property securing the FHA-insured Mortgage is or was their Principal Residence when the PCS orders were issued; and
- new permanent housing has been or will be obtained as a result of the orders.

On the date the PFS closing occurs, the Mortgagee must ensure that the Mortgage is in Default status (minimum 31 Days Delinquent).

(D) Property Valuation

(1) Appraisals

(a) Standard

The Mortgagee must obtain a standard electronically-formatted appraisal performed by an FHA Roster Appraiser pursuant to the following requirements:

- the appraisal must contain an "As-Is" Fair Market Value (FMV) for the subject Property and must be completed in accordance with the Pre-Foreclosure Sale Program requirements in the Appraiser and Property Requirements for Title II Forward and Reverse Mortgages section; and
- a copy of the appraisal must be provided to the homeowner, sales agent, or HUD, upon request.

(b) Required Analysis and Reporting of a Property Assessed Clean Energy Obligation

The Appraiser must review the sales contract, if applicable, and property tax records for the Property to determine the amount outstanding and the terms of the Property Assessed Clean Energy (PACE) obligation:

- if the Mortgagee notifies the Appraiser that the subject Property will remain subject to a PACE obligation;
- when the Appraiser observes that the property taxes for the subject Property are higher than average for the neighborhood and type of dwelling; or
- when the Appraiser observes energy-related building components or equipment or is aware of other PACE-allowed improvements during the inspection process.

The Appraiser must report the outstanding amount of the PACE obligation for the subject Property and provide a brief explanation of the terms.

Where energy and other PACE-allowed improvements have been made to the Property through a PACE program, and the PACE obligation will remain outstanding, the Appraiser must analyze and report the impact on value of the

Property, whether positive or negative, of the PACE-related improvements and any additional obligation (i.e., the PACE special assessment).

(c) Appraisal Validity Period

The as-is appraisal used for a PFS transaction is valid for 180 Days from the effective date of the appraisal report.

If a Mortgagee determines that a subsequent as-is appraisal is required, the Mortgagee may obtain a new as-is appraisal, even if the Property was appraised by an FHA Roster Appraiser within the preceding 180 Days. If a third or any subsequent appraisal is required, the Mortgagee must submit a variance request for HUD approval via EVARS.

(d) Required Documentation

The Mortgagee must retain a copy of the appraisal in the Servicing File and the Claim File.

(2) Validation of Appraised Value

(a) Standard

Prior to authorizing the marketing of the Property, the Mortgagee must review the appraisal to determine if further HUD approval is required to proceed with the as-is appraised value of the Property, as determined by the appraisal performed by an FHA Roster Appraiser.

The Mortgagee must obtain a Broker's Price Opinion (BPO) or Automated Valuation Model (AVM) if the as-is appraised value of the Property is:

- less than the unpaid principal balance by an amount of $75,000 or greater; or
- less than 50 percent of the unpaid principal balance.

If a BPO or AVM is required, the Mortgagee must submit a variance request for HUD approval via EVARS, before proceeding with the PFS using the as-is appraised value.

If a BPO or AVM is not required, the Mortgagee is not required to submit a request for a variance through EVARS.

(b) Requirements for Variance Request for Property Valuation

When required to submit a variance request to validate the as-is appraised value via EVARS, the Mortgagee must:

- note on the variance request the specific reason for the request; and
- upload the following attachments:

- the as-is appraisal;
- the BPO or AVM; and
- any additional supporting documents needed for HUD review, if applicable.

The Mortgagee must obtain approval before authorizing the marketing of the Property.

(c) Required Documentation

The Mortgagee must retain in the Claim File a copy of the BPO or AVM and the approved variance, if required.

(3) List Price

The Mortgagee must ensure that the Borrower lists the Property for sale at no less than the "As-Is" value as determined by an appraisal completed in accordance with the requirements in Pre-Foreclosure Sale Program.

(E) Property Condition

A Property that is condemned or that the Mortgagee determined is abandoned is not eligible for PFS.

(1) Surchargeable Damage

(a) Definition

Surchargeable Damage is damage to a Property caused by fire, flood, earthquake, tornado, hurricane, boiler explosion (for condominiums only), or Mortgagee Neglect.

(b) Standard

The Mortgagee is responsible for the cost of Surchargeable Damage.

(c) PFS Request for Damaged Property

The Mortgagee must submit a variance request for HUD approval via EVARS before approving the use of the PFS Option for a Property with Surchargeable Damage as follows:

- The Mortgagee must first obtain the Government's Estimate of the Cost to Repair the Surchargeable Damage by contacting HUD's Mortgagee Compliance Manager (MCM).
- Upon receipt of the Government's Estimate of the Cost to Repair, the Mortgagee must submit a variance request via EVARS to obtain HUD approval prior to entering into a PFS Agreement with the Borrower.

The Mortgagee must note on the variance request the specific reason for the request and attach any supporting documents needed for HUD's review.

(d) "As-Is" Subject to Surchargeable Damage

If the Property is being sold "As-Is" subject to the Surchargeable Damage, the Mortgagee must deduct the Government's Repair Cost Estimate of the damage from its PFS Claim.

(e) "As Repaired" Subject to Surchargeable Damage

If the Property is being sold "As Repaired" and funds for Surchargeable Damage repairs are escrowed or provided as a credit to the Borrower at closing, the Mortgagee must not include in its Net Sale Proceeds calculation the amount of the repair escrow or repair credit.

(2) Damage other than Surchargeable Damage

If the damage is not considered Surchargeable Damage, the Mortgagee is not required to obtain HUD approval prior to approving the PFS Agreement.

(3) Hazard Insurance Claim

Where applicable, the Mortgagee must work with the Borrower to file a hazard insurance claim and either:

- use the proceeds to repair the Property; or
- adjust the PFS Claim by the amount of the insurance settlement (Non-Surchargeable Damage) or the Government's Repair Cost Estimate.

(4) Disclosure of Damage after PFS Approval

In the event the Mortgagee becomes aware that the Property has sustained significant damage after a Borrower has received the Approval to Participate (ATP) in the PFS Program, the Mortgagee must re-evaluate the Property to determine if it continues to qualify for the PFS Program or terminate participation if the extent of the damage changes the Property's FMV.

(F) Condition of Title

The Mortgagee must ensure that all FHA-insured mortgaged Properties sold under the PFS Program have marketable title.

Before approving a Borrower for participation in the PFS Program, the Mortgagee must obtain a title search or preliminary report and determine whether the title is impaired by:

- unresolvable title problems;

- liens that cannot be discharged as permitted by HUD; or
- a PACE obligation.

(G) Owner-Occupant Borrower Compensation

(1) Compensation Amount

HUD offers Owner-Occupant Borrowers who act in good faith and successfully sell their Properties using the PFS Option a compensation of up to $3,000.

(2) Use of Compensation

The Owner-Occupant Borrower may:

- apply the entire amount of the $3,000 compensation or a portion of it to resolve liens, including a PACE obligation;
- offset the sales transaction costs not paid by HUD (including a home warranty plan fee, costs of optional repairs, and the buyer's closing expenses); and/or
- use the compensation for relocation or transition assistance.

The Mortgagee must instruct the Closing Agent to:

- pay the HUD relocation or transition assistance from Net Sale Proceeds; and
- itemize on the Closing Disclosure or similar legal document any relocation or transition assistance received by HUD or from other entities.

(3) Required Documentation

The Mortgagee must ensure that the Closing Disclosure or similar legal document accurately reflects the use of any Borrower compensation amount.

(H) PFS Program Participation Requirements

(1) Approval to Participate

(a) Definition

A Pre-Foreclosure Sale (PFS) Approval to Participate (ATP) is an agreement signed by the Borrower to confirm their willingness to comply with the PFS Program requirements.

(b) Standard

After determining that a Borrower and Property meet the PFS eligibility requirements, the Mortgagee must notify the Borrower by sending:

- an ATP for the PFS Program (form HUD-90045, *Approval to Participate: Pre-foreclosure Sale Procedure Property Sales*

Information Property Occupancy & Maintenance), including the date by which the Borrower's Sales Contract must be executed under Pre-Foreclosure Sale Marketing Period guidance; and
- a Pre-Foreclosure Sale Addendum.

The Mortgagee must send these documents to the Borrower via methods providing confirmation or a timestamp of delivery.

The Mortgagee must receive the signed ATP within 10 Days of the date of delivery of the ATP.

(2) Use of Licensed Real Estate Broker

(a) Borrower Retention of Licensed Real Estate Broker

The Borrower is responsible for retaining the services of a licensed real estate broker/agent within seven Days of the date of delivery of the ATP.

(b) Required Listing Disclosure

The Mortgagee must ensure that the established Listing Agreement between the seller and the agent/broker includes the following cancellation clause: "Seller may cancel this Agreement prior to the ending date of the listing period without advance notice to the agent/broker, and without payment of a commission or any other consideration if the property is conveyed to the mortgage insurer or the mortgage holder. The sale completion is subject to approval by the mortgagee."

(c) Real Estate Broker Duties

The real estate broker/agent must market the Property within the preestablished time frame stated in the ATP and list the Property in accordance with the property valuation requirements.

(d) Real Estate Broker Conflicts of Interest

The real estate broker/agent selected must have no conflict of interest with the Borrower, the Mortgagee, the Appraiser or the buyer associated with the PFS transaction. The broker/agent must not claim a sales commission on a PFS of a broker's/agent's own Property or that of a spouse, sibling, parent, or child.

Any conflict of interest, appearance of a conflict, or self-dealing by any of the parties to the transaction is strictly prohibited.

(3) Arm's Length PFS Transaction

(a) Definition

An Arm's Length PFS Transaction is between two unrelated parties that is characterized by a selling price and other conditions that would prevail in an open market environment and without hidden terms or special understandings existing between any of the parties involved in the transaction.

(b) Standard

The Mortgagee must ensure that the following arm's length requirements apply to parties involved in PFS transactions:

- Any PFS proposed by the Borrower or their agent and approved by the Mortgagee must be an Arm's Length Transaction between the Borrower and prospective buyer, subject to the exceptions in the Permitted Non-Arm's Length Transactions section.
- Except for real estate agents and brokers representing a party to the PFS, no party that is a signatory on the sales contract, including addenda, can serve in more than one capacity.
- The broker hired to sell the Property must not share a business interest with the Mortgagee.
- If the Mortgagee knows that a shared interest exists between the Appraiser and sales agent, the Mortgagee must note this in the Servicing File and the Claim File.

(c) Permitted Non-Arm's Length Transactions

HUD permits non-Arm's Length PFS Transactions, to the extent necessary to comply with state law, where state law prohibits placement of an Arm's Length Transaction requirement on property sales.

If clauses (a) and (c) of the PFS Addendum are impermissible under state law, the Mortgagee may strike these clauses from the PFS Addendum prior to execution, provided that the transaction complies with all PFS Program requirements.

(d) Relocation Service Contribution

The Mortgagee may permit a relocation service affiliated with the Borrower's employer to contribute a fixed sum toward the proceeds of the PFS transaction without altering the arm's length nature of the sale, as long as the result is an outright sale of the Property and cancellation of the FHA mortgage insurance.

(4) Mortgagee Monitoring of PFS

The Mortgagee must monitor the PFS to ensure the Borrower's compliance with the terms in the ATP and with all PFS Program requirements.

The Mortgagee must terminate a Borrower's participation in the PFS Program in the event of noncompliance.

(I) Pre-Foreclosure Sale Marketing Period

(1) Maximum Marketing Period

The Borrower has four months from the date of the Borrower's ATP to acquire a contract of sale.

(2) Minimum Marketing Period

The Mortgagee must ensure that PFS Properties are listed in the Multiple Listing Service (MLS) for a minimum of 15 Days before offers are evaluated. After this initial listing period, the broker/agent may evaluate offers as they are received.

This 15-Day minimum marketing period must follow the date of the Borrower's ATP.

(3) Extension to PFS Marketing Period

HUD provides an automatic two-month extension to the deadline to initiate foreclosure for completion of a PFS transaction if there is a signed contract of sale, but settlement has not occurred by the end of the fourth month following the date of the Borrower's ATP in the PFS Program.

(4) Monthly Review of Marketing Status

On a monthly basis, Mortgagees must review the Property's marketing status with the Borrower and/or real estate broker/agent.

(5) Property Inspection

The Mortgagee must inspect Properties during the PFS period if:

- the Property is vacant;
- the Mortgagee has reason to suspect that the Property has become vacant; or
- the Borrower or Authorized Third Party has not maintained contact with the Mortgagee.

(6) Previously Initiated Foreclosures

The Mortgagee may not initiate a four-month PFS marketing period for a Property after the first legal action to initiate foreclosure has occurred.

If the Mortgagee has received an acceptable contract of sale that meets the PFS requirements, the PFS marketing period must only be issued for the time needed to close based on the close of escrow date on the contract of sale.

The Mortgagee may only cancel or temporarily suspend the foreclosure action where such suspension is permissible under state law.

(J) Evaluation of Offers

(1) Standard

The listing real estate broker/agent must provide the Mortgagee with an offer that:

- yields the highest net return to HUD; and
- meets HUD's requirements for an acceptable contract of sale.

The listing real estate broker/agent must ensure that:

- all offers submitted to the Mortgagee for approval are signed by both the seller and the buyer prior to submission; and
- the PFS Addendum is signed by all the applicable parties (except for the Closing Agent).

(2) Back-up Offers

Once an offer has been submitted to the Mortgagee for approval, the listing real estate broker/agent must retain any offer that the seller elects to hold for "back-up" until a determination has been made on the previously submitted offer.

(3) Required Documentation

The listing real estate broker/agent must retain all offers received, including offers not submitted for approval, in accordance with state law.

(K) Contract Approval by Mortgagee

(1) Standard

In reviewing the contract of sale, the Mortgagee must:

- ensure that the PFS sale is an outright sale of the Property and not a sale by assumption;
- review the sales documentation to determine there are:
  - no hidden terms or special agreements existing between any of the parties involved in the PFS transaction; and

  - no contingencies that might delay or jeopardize a timely settlement; and
- determine that the Property was marketed pursuant to HUD requirements and that the minimum required Tiered Net Sale Proceeds have been met.

The following anti-fraud measures apply to PFS transactions:

- A Mortgagee must not approve a Borrower for a PFS if the Mortgagee knows or has reason to know of a Borrower's fraud or misrepresentation of information.
- All parties involved in a PFS transaction must sign and date a PFS Addendum as a contingency for a PFS transaction to close.

(2) Sales Contract Review Period

After receiving an executed contract of sale for a Borrower approved to participate in the PFS Program, the Mortgagee must send to the Borrower form HUD-90051, *Sales Contract Review: Pre-foreclosure Sale Procedure*, no later than five business days from the Mortgagee's receipt of an executed contract for sale.

(3) Net Sale Proceeds

(a) Definition

Net Sale Proceeds are the proceeds of a PFS sale, calculated by subtracting reasonable and customary closing and settlement costs and any outstanding balances on Partial Claim(s) or Payment Supplement(s) from the property sales price.

(b) Standard

Regardless of the Property's sale price, a Mortgagee may only approve a PFS contract for sale if the Tiered Net Sale Proceeds are at or above HUD's minimum allowable thresholds. HUD's requirements for minimum Tiered Net Sale Proceeds are based on the length of time the Property has been competitively marketed for sale under an ATP as follows:

- Days 1-30 of marketing: The Mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 88 percent of the "As-Is" appraised FMV.
- Days 31-60 of marketing: The Mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 86 percent of the "As-Is" appraised FMV.
- Days 61-120 of marketing: The Mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 84 percent of the "As-Is" appraised FMV.

The Mortgagee has the discretion to deny or delay sales where an offer may meet or exceed the Net Sale Proceeds of 84 percent, if it is presumed that continued marketing would likely produce a higher sale amount.

The Mortgagee is liable for any FHA Insurance Claim Overpayment on a PFS transaction that closes with less than the required Tiered Net Sale Proceeds, unless a variance has been granted by HUD.

(c) Settlement Costs

(i) Allowable Settlement Costs

The Mortgagee may include the following settlement costs in its Net Sale Proceeds calculation:

- sales commission consistent with the prevailing rate but, not to exceed 6 percent;
- real estate taxes pro-rated to the date of closing;
- local/state transfer tax stamps and other closing costs customarily paid by the seller, including the seller's costs for a title search and Owner's Title Insurance;
- compensation payable to the Owner-Occupant Borrower of $3,000, or to be used to resolve junior liens;
- for Non-Occupant Borrowers, HUD will allow $1,500 of Net Sale Proceeds to be used to resolve junior liens;
- the entire outstanding Partial Claim amount must be paid when calculating the Net Sale Proceeds. The seller, buyer, or other Interested Party may contribute the difference if the amount of Net Sale Proceeds falls below the allowable threshold; and
- up to 1 percent of the buyer's first mortgage amount if the sale includes FHA financing.

(ii) Unacceptable Settlement Costs

The Mortgagee must not include the following costs in the Net Sale Proceeds calculation:

- repair reimbursements or allowances;
- home warranty fees;
- Discount Points or mortgage fees for non FHA-financing;
- Mortgagee's Title Insurance fee; and
- Third-Party Fees incurred by the Mortgagee or Borrower to negotiate a PFS.

(d) Third-Party Fees

With the exception of reasonable and customary real estate commissions, the Mortgagee must ensure that third-party fees incurred by the Mortgagee or

Borrower to negotiate a PFS are not included on the Closing Disclosure or similar legal documents unless explicitly permitted by state law.

The Mortgagee, its agents, or any outsourcing firm it employs must not charge any fee to the Borrower for participation in the PFS Program.

(e) Partial Claim and Payment Supplement Subordinate Mortgages

The Mortgagee must ensure that all outstanding Partial Claims and Payment Supplements are paid in full.

The Mortgagee must deduct any outstanding balances on Partial Claim and Payment Supplement Subordinate Mortgages from the Net Sale Proceeds. The Mortgagee must ensure sufficient proceeds from the PFS satisfy all Partial Claim and Payment Supplement balances, and the funds are remitted directly to HUD's Loan Servicing Contractor.

If, after satisfying the Partial Claim or Payment Supplement, the Net Sale Proceeds fail to meet the applicable Tiered Net Sale Proceeds requirement, the Mortgagee must request and obtain approval from HUD via EVARS before closing.

(4) Title I Liens

If the Mortgagee discovers that a Borrower has a HUD Title I Mortgage secured by the Property, the Mortgagee must contact the Title I subordinate lien holder to advise the Borrower's participation in a PFS. HUD may require the Mortgagee to negotiate the release of the lien in order to proceed with a PFS.

If the Title I Mortgage has been assigned to HUD, the Mortgagee must contact HUD's Financial Operations Center.

(5) Discharge of Junior Liens

The Mortgagee must provide for the discharge of junior liens as follows:

- The Borrower must satisfy or obtain release of liens.
- If the Owner-Occupant Borrower receives compensation ($3,000), this compensation may be applied toward discharging liens.
- If no other sources are available, the Non-Occupant Borrower may obligate up to an additional $1,500 from sale proceeds toward discharging liens or encumbrances.

(6) Section 235 Recapture

The Mortgagee must first determine if the Mortgage is subject to recapture as referenced in Section 235 Mortgages. If a recapture amount is owed to HUD, the

Mortgagee must contact HUD's Loan Servicing Contractor prior to approving the PFS.

(L) Closing and Post-closing Responsibilities

(1) Mortgagee Responsibilities Prior to Closing

The Mortgagee must provide the Closing Agent with:

- form HUD-90052, *Closing Worksheet: Pre-foreclosure Sale Procedure*, which lists all amounts payable from Net Sale Proceeds; and
- the PFS Addendum that was signed by:
  - buyers;
  - buyers' agent;
  - sellers;
  - sellers' agent (listing agent); and
  - transaction facilitators/negotiators, if applicable.

The Mortgagee must receive from the Closing Agent:

- a copy of the Closing Disclosure or similar legal document which includes a calculation of the actual Net Sale Proceeds, and
- the executed form HUD-90052, which must be included in the Servicing File and the Claim File.

The Mortgagee must review the Final Terms of the PFS Transaction to ensure that:

- the final terms of the PFS transaction are consistent with the sales contract;
- only allowable settlement costs have been deducted from the seller's proceeds; and
- the Net Sale Proceeds will be equal to or greater than the allowable thresholds.

(2) Closing Agent Responsibilities after Final Approval

Once the Mortgagee gives final approval for the PFS and the settlement occurs, the Closing Agent must:

- pay the expenses out of the Net Sale Proceeds and forward the Net Sale Proceeds to the Mortgagee;
- forward a copy of the Closing Disclosure or similar legal document to the Mortgagee to be included in the Servicing File and the Claim File no later than three business days after the PFS transaction closes; and
- sign the PFS Addendum on or before the date the PFS transaction closes, unless explicitly prohibited by state statute.

(3) Satisfaction of Mortgage Debt

Upon receipt of the portion of the Net Sale Proceeds designated for Mortgage satisfaction, the Mortgagee must satisfy the Mortgage debt and may file a claim for mortgage insurance benefits.

(M) Early Termination of PFS Program Participation

(1) Standard

(a) Borrower-Initiated Termination

The Mortgagee must permit a Borrower to voluntarily terminate participation in the PFS Program at any time.

(b) Mortgagee-Initiated Termination

The Mortgagee may terminate a Borrower's PFS Program participation at its discretion for any of the following reasons:

- discovery of unresolvable title problems;
- determination that the Borrower is not acting in good faith to market the Property;
- significant change in property condition or value; or
- the Mortgagee has approved the Borrower for a Permanent Home Retention Option after the Borrower advised the Mortgagee that their financial situation has improved, and they want to retain their home.

(c) Notification of PFS Program Participation Termination

The Mortgagee must send the Borrower a written notice providing the reason for terminating their PFS program participation and the termination date of the PFS.

(2) Required Documentation

The Mortgagee must retain a copy of the Notification of PFS Program Participation Termination in the Servicing File.

(N) Failure to Complete a PFS Transaction

At the expiration of the PFS marketing period, should the Borrower be unable to complete a PFS transaction, the Mortgagee must re-evaluate available Loss Mitigation Options as follows:

- If the Borrower's financial condition has improved to the point that reinstatement is a viable option, review the Borrower's eligibility for one of the Loss Mitigation Home Retention Options; and
- If reinstatement is not feasible, review the Borrower for a DIL of Foreclosure.

Within 90 Days after the expiration of the PFS marketing period, the Mortgagee must approve the Borrower for an alternate Loss Mitigation Option or complete the first legal action to initiate foreclosure.

Should additional time be needed to complete a DIL or to initiate foreclosure, Mortgagees must submit a request for an extension of time for HUD approval via EVARS.

(O) Extensions of Foreclosure Time Frame for PFS

(1) Standard

After PFS early termination or option failure, HUD provides an automatic 90-Day extension to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure. The automatic 90-Day extension begins the Day after the PFS ATP is terminated or expires.

If the Mortgagee has not yet received the Net Sale Proceeds from the Closing Agent and the automatic 90-Day extension is nearing expiration, the Mortgagee must submit a request for extension for HUD approval via EVARS no later than 10 Days before the 90-Day extension expires.

(2) Required Documentation

The Mortgagee must retain in the Servicing File and the Claim File documentation of any extensions received from HUD.

(P) Deficiency Judgments

If a foreclosure occurs after the Borrower unsuccessfully participated in the PFS process in good faith, neither the Mortgagee nor HUD will pursue the Borrower for a deficiency Judgment.

(Q) PFS Incentive

The Mortgagee may claim an incentive for each completed PFS transaction that complies with all HUD PFS requirements.

(R) Mortgage Insurance Termination

The Mortgagee must not submit a mortgage insurance termination on PFS transactions. HUD will only pay FHA mortgage insurance benefits when the status of the mortgage insurance is “active.”

The Mortgagee must report the PFS Sale to consumer reporting agencies.

iii. Deed-in-Lieu of Foreclosure

(A) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a Loss Mitigation Home Disposition Option in which a Borrower voluntarily offers the deed to HUD in exchange for a release from all obligations under the Mortgage.

(B) Disclosure Requirements for DIL

Prior to approving a Borrower for a DIL, the Mortgagee must notify the Borrower in writing of the following:

- The Mortgage must be in Default on the date the DIL special warranty deed is executed, pursuant to Section 204 of the National Housing Act (12 U.S.C. § 1710).
- DIL transactions are generally reported to consumer reporting agencies, and will likely affect the Borrower's ability to obtain another Mortgage and other types of credit.
- If the Borrower is a servicemember, it is recommended that the Borrower obtain guidance from their employer regarding the DIL's impact on their security clearance and employment.

(C) DIL Options

There are two types of DIL options: Standard DIL and DIL for Servicemembers.

(1) Standard DIL

A Standard Deed-in-Lieu (DIL) is a DIL transaction for Owner-Occupant Borrowers and Non-Occupant Borrowers.

The Mortgagee must ensure that:

- the Borrower has attempted to complete a PFS;
- the Borrower and the Property meet the requirements for a Standard PFS; and
- the Mortgage is 61 Days or more Delinquent as of the date of the Mortgagee's approval.

(2) DIL for Servicemembers

A DIL for Servicemembers is a DIL for servicemembers with PCS orders who must relocate to a new duty station at least 50 miles away from their existing residence, without the Mortgagee verifying hardship.

The Mortgagee must ensure that:

- Servicemembers and the Property meet the requirements for a PFS for Servicemembers;
- the Mortgage is 31 Days or more Delinquent on the date the DIL special warranty deed is executed; and
- Servicemembers have attempted to complete a PFS Option.

(3) DIL Exceptions for Borrowers with More than One FHA-Insured Mortgage

The Mortgagee must obtain a certification from the Borrower that the Borrower does not own any other FHA-insured Property.

If the Borrower owns more than one FHA-insured Property, the Mortgagee must submit a request for HUD approval via EVARS to offer a DIL Option to a Borrower who owns more than one FHA-insured Property.

(4) Condition of Title

The Borrower or Mortgagee must convey a clear and marketable title to the Secretary. The Mortgagee must obtain a title search or preliminary report and determine whether the title is impaired by:

- unresolvable title problems;
- liens that cannot be discharged as permitted by HUD; or
- a PACE obligation.

(5) Deficiency Judgment

HUD will not accept a DIL when it has elected to pursue a deficiency Judgment against the Borrower.

(D) DIL Owner-Occupant Borrower Relocation Assistance

(1) Amount of Relocation Assistance

HUD offers Owner-Occupant Borrowers up to $3,000 in relocation assistance upon vacating the Property and satisfaction of the requirements of the DIL Agreement. HUD will not pay this relocation assistance if the Property is occupied at conveyance.

(2) Use of Relocation Assistance

The Owner-Occupant Borrower may apply the entire amount of the relocation assistance or a portion of it to resolve liens, including PACE obligation liens.

(E) DIL Agreement

(1) Standard

The Borrower and the Mortgagee must execute a DIL Agreement in writing. HUD does not require a specific format for documenting a DIL Agreement. The Mortgagee must ensure that the DIL documentation complies with all applicable laws and regulations.

(2) DIL Agreement Terms

The Mortgagee must ensure that the DIL Agreement contains the following:

- certification that the Borrower does not own other Property subject to a Mortgage insured by or held by HUD;
- the Transfer Date;
- notification of possible income tax consequences;
- acknowledgment that Borrowers who comply with all requirements of the Agreement will not be pursued for deficiency Judgments;
- a statement describing the physical condition in which the Property will be conveyed;
- agreement with the Borrower to convey the Property vacant and free of Personal Property, unless HUD has approved an Occupied Conveyance;
- itemization of keys, built-in-fixtures, and equipment to be delivered by the Mortgagee on or before the Transfer Date;
- evidence that utilities, assessments, and HOA dues are paid in full by the Transfer Date, unless otherwise agreed to by all parties; and
- the amount of relocation assistance payable to and/or on behalf of the Owner-Occupant Borrower will not exceed $3,000.

(3) Required Documentation

The Mortgagee must retain a copy of the executed DIL Agreement in the Servicing File and the Claim File.

(F) DIL Conveyance to HUD

(1) Mortgage in Default

The Mortgagee must ensure that the Mortgage is in Default when the DIL is recorded and the Property is conveyed to HUD.

(2) Discharge of Liens

The Mortgagee must provide for the discharge of liens as follows:

- The Mortgagee must complete a title search and ensure the release of liens and/or endorsements to the title policy are obtained.

- HUD will not accept titles subject to most liens, including IRS and HOA liens. HUD will allow liens securing repayment of Section 235 assistance payments, Partial Claim advances, and Title I liens.
- HUD will allow a notice of lien recorded in the land records securing repayment of a PACE obligation that may only become subject to an enforceable claim (i.e., a lien) for delinquent regularly scheduled PACE special assessment payments and otherwise complies with the eligibility and acceptability criteria for Properties encumbered with a PACE obligation provided in PACE Obligation Review.
- If the Owner-Occupant Borrower receives relocation assistance, this assistance may be applied toward discharging liens.

(3) Special Warranty Deed

The Borrower and the Mortgagee must convey the Property through a special warranty deed and, when possible, the Borrower must convey title directly to HUD. The Mortgagee must cancel and surrender to the Borrower the original credit instrument, indicating that the Mortgage has been satisfied.

If it is necessary to convey title to the Mortgagee, and then to HUD, the Mortgagee must document the reason in the Servicing File and the Claim File.

(4) Conveyance Time Frame

The Mortgagee must record the special warranty deed and deliver the original, recorded deed to HUD's MCM within 45 Days of the date the clear and marketable title was conveyed to the Secretary.

(5) Occupied Properties

The Mortgagee must ensure that the Property is vacant at the time of conveyance.

HUD will not accept a DIL if the collateral Property is occupied at the time of conveyance to HUD, unless authorized for Occupied Conveyance.

(6) Option Not to Convey

The Mortgagee may elect not to convey title to HUD and to terminate the contract of mortgage insurance. If this occurs, the Mortgagee must use form HUD-27050-A, *Insurance Termination*, and select Voluntary Termination (Term Type 21) in FHAC to notify HUD.

(G) DIL Incentive

The Mortgagee may submit a claim for an incentive for each completed DIL transaction that complies with all HUD DIL requirements.

(H) DIL Foreclosure Time Frames

The Mortgagee must complete the DIL or initiate foreclosure within six months of the date of Default, unless the Mortgagee has qualified for an automatic extension or has received an extension approved by HUD via EVARS. If the DIL follows a failed PFS, the DIL must be completed or foreclosure initiated within 90 Days of the failure.

(I) Reporting to Consumer Reporting Agencies and the IRS

The Mortgagee must not report DIL transactions to consumer reporting agencies as foreclosures.

k. Loss Mitigation Incentives and Title Reimbursement (10/01/2025)

i. Loss Mitigation Incentives

The Mortgagee may claim an incentive for completion of a permanent Loss Mitigation Option if:

- three or more full monthly payments are Delinquent (i.e., 61 Days or more Delinquent) when the Permanent Home Retention Option or Home Disposition Option is approved, except the Mortgage must be 31 Days or more Delinquent:
  - on the closing date for PFS for Servicemembers or
  - on the for date the DIL special warranty deed is executed for DIL for Servicemembers;
- the Loss Mitigation Option was completed in accordance with FHA requirements; and
- the correct and complete claim is submitted to HUD within 60 Days of the execution date of the Permanent Home Retention Option or Home Disposition Option.

The Mortgagee may submit a claim for an incentive for the successful completion of the approved Loss Mitigation Options, including for Loss Mitigation Options associated with a PDMDA (also referred to as Disaster options), listed below.

Loss Mitigation Option	Mortgagee Incentive
Partial Claim	$500 for a Partial Claim
Loan Modification (including OWL)	$750 for a Loan Modification *Additionally, the Mortgagee is eligible to be reimbursed up to $250 for fees associated with title search, title policy, and/or recordation
Payment Supplement	$1,750
PFS	$1,000
DIL	$250

ii. Reimbursement for Loan Modification Title Search and Recordation

The Mortgagee may submit a claim to be reimbursed up to $250 for fees associated with title search, title policy, and/or recordation associated for an executed Loan Modification where:

- three or more full monthly payments are Delinquent (i.e., 61 Days or more Delinquent) when the Standalone Loan Modification, Combination Loan Modification and Partial Claim, or OWL is approved;
- the Loss Mitigation Option was completed in accordance with FHA requirements; and
- the correct and complete claim for $250 is submitted to HUD within 120 Days of the execution date of the Loan Modification, or Loan Modification as part of a Combination Loan Modification and Partial Claim.

The claim for reimbursement up to $250 for fees associated with title search, title policy, and/or recordation may be included with the claim for a Mortgagee incentive. Mortgagees that do not qualify for an incentive may still submit a claim for this reimbursement.

l. Presidentially-Declared Major Disaster Areas (10/01/2025)

i. Disaster Declarations

Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, the President has authority to declare a major disaster for any area which has been affected by damage of sufficient severity and magnitude to warrant major disaster assistance. Disaster declarations and information regarding available federal assistance for each disaster incident are posted on the Federal Emergency Management Agency's (FEMA) website.

When the President declares a major disaster, the Mortgagee must implement the procedures set forth in this section for each designated area that is eligible for federal disaster assistance, designated for public assistance, individual assistance, or both, unless otherwise specified.

ii. Moratorium on Foreclosures

(A) Standard

Mortgagees must attempt to contact Borrowers whose Property is located in a PDMDA to notify the Borrower that disaster loss mitigation assistance is available. If the first legal action has been completed or the Borrower has been referred to foreclosure, the Mortgagee must notify the Borrower that a foreclosure moratorium is in place for 90 Days beginning on the date of the disaster declaration for that area.

FHA-insured Mortgages secured by Properties located in a PDMDA will be subject to a moratorium on foreclosures following the disaster declaration. The foreclosure moratorium is:

- effective for a 90-Day period beginning on the date of the disaster declaration for that area (HUD may communicate further specific guidance for extension of moratorium periods for individual disasters);
- applicable to the initiation of foreclosures and foreclosures already in process; and
- considered an additional period of time approved by HUD for the Mortgagee to take loss mitigation action or commence foreclosure.

HUD provides the Mortgagee an automatic 90-Day extension from the date of the moratorium expiration date to evaluate the Borrower under HUD's Loss Mitigation for Borrowers in PDMDAs or commence or recommence foreclosure action. The Mortgagee may also submit a request for an additional extension to HUD's foreclosure-related deadlines via HUD's EVARS when prohibited from performing a required action due to the foreclosure moratorium.

(B) Required Documentation

The Mortgagee must retain in the Servicing File and the Claim File, if applicable, any approved extensions from HUD related to a foreclosure moratorium.

(C) Hazard or Flood Insurance Settlement

The Mortgagee must take no action to initiate or complete foreclosure proceedings, after expiration of a disaster-related foreclosure moratorium, if such action will jeopardize the full recovery of a hazard or flood insurance settlement.

iii. Monitoring of Repairs to Substantially Damaged Homes

(A) Definition

A building is considered to be "Substantially Damaged," as defined in the National Flood Insurance Program (NFIP) regulations, when "damage of any origin is sustained by a structure whereby the cost of restoring the structure to its before damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred."

(B) Standard

The Mortgagee must take appropriate actions to ensure that repairs to Substantially Damaged Properties comply with the federal building elevation standards, including those established by FEMA. The Mortgagee must ensure compliance with any higher applicable building elevation standard adopted by the state or local government.

iv. Loss Mitigation for Borrowers in PDMDAs

Mortgagees must attempt to contact Borrowers whose Property is located in a PDMDA to notify the Borrower that disaster loss mitigation assistance is available.

If the Borrower is experiencing a Financial Hardship due to the disaster, the Mortgagee must offer loss mitigation assistance, where appropriate.

(A) Disaster Forbearance for Borrowers in PDMDAs

The Mortgagee may offer a Disaster Forbearance, which allows for one or more periods of reduced or suspended payments without specific terms of repayment, to a Borrower with a mortgaged Property or place of employment located within a PDMDA.

The Mortgagee must ensure the Disaster Forbearance meets the requirements for Forbearances except:

- the requirement that first legal action to initiate foreclosure has not been completed does not apply to Disaster Forbearances; and
- the Disaster Forbearance Time Frames apply.

The Mortgagee must waive late fees when the Borrower is on a Disaster Forbearance.

(B) Disaster Forbearance Time Frames

Borrower Characteristics	Requirements	Initial Disaster Forbearance Period	Additional Disaster Forbearance Period	Maximum Disaster Forbearance Period (for each PDMDA)
Borrower has been in contact with Mortgagee	The Mortgage must offer the Borrower on a Disaster Forbearance if: • the Property or Borrower's place of employment is in a PDMDA; • the Mortgagee has made contact with the Borrower; • regardless of occupancy status; and • regardless of previous delinquency.	Up to 6 months	Up to 6 months	Up to 12 months
Mortgagee has not established contact with the Borrower	The Mortgagee may place a Borrower on an initial 3 month Disaster Forbearance if: • the Property is in a PDMDA;	Up to 3 months	Up to 9 months, only if Borrower contact has been established	Up to 12 months, only if Borrower contact has been established

Borrower Characteristics	Requirements	Initial Disaster Forbearance Period	Additional Disaster Forbearance Period	Maximum Disaster Forbearance Period (for each PDMDA)
	• the Mortgagee has been unable to contact the Borrower; • the Mortgage was current or no more than 2 months Delinquent prior to the disaster event; and • the Mortgage goes into Default in the 90 Days after the month the PDMDA was declared.			
Borrower on a Forbearance prior to the PDMDA	The Mortgagee must terminate the Borrower's current Forbearance at the end of the month the PDMDA was declared and place the Borrower on an initial 6 month Disaster Forbearance starting the following month.	Up to 6 months	Up to 6 months	Up to 12 months
Borrower who requires additional time to complete substantial repairs to Property	The Mortgagee may provide extended additional Disaster Forbearances periods for Borrowers in PDMDAs while they are pursuing substantial home repairs related to the disaster, provided that: • the Property was Substantially Damaged by the disaster; • the Forbearance period does not exceed the estimated time needed to complete home repairs; and • the total Forbearance period does not exceed 24 months.	Up to 6 months	Up to 18 months	Up to 24 months

(C) Disaster Repayment Plan

For Borrowers in or impacted by a PDMDA, the Mortgagee must review the Borrower for a Repayment Plan.

(D) Permanent Home Retention Options

For Borrowers in or impacted by a PDMDA, the Mortgagee must review the Permanent Home Retention Options to offer the Borrower a Permanent Home Retention Option, including a TPP where required, with the following exceptions:

- The limit on receiving no more than one Permanent Home Retention Option within 24 months does not apply.
- The requirement that a minimum of four Mortgage Payments have been paid by the Borrower for a Permanent Home Retention Option does not apply.
- If the Property was Substantially Damaged, the Property repairs must be completed to a habitable condition.
- The Mortgagee must waive late fees when the Borrower is on a Disaster Forbearance.

The Borrower can only receive one Permanent Home Retention Option for each PDMDA.

The Mortgagee must ensure the Permanent Home Retention Option is reported with the appropriate Disaster Delinquency/Default Status (DDS) Code.

(E) Terms of the Mortgage are Unaffected

Nothing in this section confers any right to a Borrower to any loss mitigation or any other action by HUD or the Mortgagee. Further, nothing in this section interferes with any right of the Mortgagee to enforce its private contractual rights under the terms of the Mortgage. All private contractual rights and obligation remain unaffected by anything in this section. Where a Mortgagee chooses to enforce its contractual rights after expiration of any automatic foreclosure moratorium, the standard time frames to initiate foreclosure and reasonable diligence in prosecuting foreclosure following expiration of a foreclosure moratorium will apply.

(F) Home Disposition Options

Pre-Foreclosure Sale (PFS) or Deed-in-Lieu (DIL) of Foreclosure are also available to Borrowers with a mortgaged Property or place of employment located within a PDMDA, where the requirements for Home Disposition Options are met.

(G) Suspension of Reporting to Consumer Reporting Agencies

The Mortgagee must suspend reporting of delinquencies to consumer reporting agencies for a Borrower who is granted disaster-related Mortgage Payment relief and is otherwise performing as agreed.

Mortgagees are required to comply with the credit reporting requirements of the Fair Credit Reporting Act (FCRA); however, FHA encourages Mortgagees to consider the impacts of a disaster on Borrowers' financial situations and any flexibilities a Mortgagee may have under the FCRA when taking any negative credit reporting actions.

m. Non-Monetary Default (12/21/2022)

By executing the deed of trust and Note for an FHA-insured Mortgage, the Borrower agrees to submit the monthly Mortgage Payment by the first of each month and to adhere to the uniform covenants listed in the deed of trust and Note. The following provides guidance associated with the Borrower's failure to adhere to these covenants.

i. Definition

Non-Monetary Default is when the Borrower fails to perform obligations, other than making monthly payments, contained in the mortgage security instrument for a period of 30 Days.

ii. Mortgagee Cure

When the Non-Monetary Default may be cured or otherwise resolved by Mortgagee action without resorting to foreclosure action, the Mortgagee must advance and charge the Borrower all amounts due for servicing activities, as defined in the mortgage agreement, if:

- the Borrower fails to make required payments or charges;
- the Borrower fails to perform any other covenants and agreements contained in the security instrument; or
- there is a legal proceeding that may affect the Mortgagee's rights in the Property.

iii. Hazard and Flood Insurance

If the Borrower fails to maintain adequate Hazard and/or Flood Insurance coverage when it is stated as an obligation in the Mortgage, the Mortgagee may advance funds or force-place insurance as follows.

(A) Mortgagee Advances

The Mortgagee may advance the funds to pay the renewal premiums. The Mortgagee must renew the same type of policy and the same coverage carried previously by the Borrower.

(B) Force-Placed Insurance

If Borrowers fail to renew the Hazard and/or Flood Insurance coverage when required, the Mortgagee may force-place Hazard and/or Flood Insurance where consistent with federal regulations. While the Mortgagee may, at its discretion, obtain

more coverage than is necessary to protect the Mortgagee's interest, HUD limits its reimbursement of these premiums.

If the Mortgagee force-places a Private Flood Insurance (PFI) policy to satisfy the mandatory Flood Insurance purchase requirement, the PFI must meet the requirements for Flood Insurance.

iv. Taxes, Assessments, and Government or Municipal Charges

The Mortgagee may advance funds and charge the Borrower when the Borrower fails to pay taxes, assessments, water rates, and other governmental or municipal charges, fines, or impositions not included in the Borrower's monthly Mortgage Payment.

v. Homeowners' Association Fees

If the Borrower fails to pay HOA/Condominium Fees, the Mortgagee must take any action necessary to protect the first lien position of the FHA-insured Mortgage against foreclosure actions brought by a HOA/condominium or any other junior lien holder.

vi. Code Violations

If the Borrower fails to address a code violation notice from the municipality where the Property is located, the Mortgagee must perform activities necessary to preserve and protect the Property, as authorized under the security instruments. See Mortgagee Property Preservation and Protection Action.

vii. Demolition Orders

The Mortgagee must forward copies of all notices pertaining to demolition orders and hearings to HUD's MCM immediately upon discovery.

The MCM will advise the Mortgagee as to whether to proceed with the demolition or to postpone the demolition until after conveyance to HUD.

viii. Due-on-Sale Clause

The Mortgagee must review the Mortgage's legal documents to determine any covenant restrictions pertaining to assumption. See Assumptions for more information.

n. Distressed Asset Stabilization Program

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and any other interested participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

o. Reinstatement (03/31/2022)

i. Standard

The Mortgagee must allow reinstatement of the Mortgage if the Borrower offers, in a lump sum payment, all amounts to bring the account current, including costs incurred by the Mortgagee in instituting foreclosure, except under any of the following circumstances:

- within the two years immediately preceding the initiation of the current foreclosure action, the Mortgagee has accepted reinstatement in a previous foreclosure action;
- reinstatement will preclude foreclosure following a subsequent Default; or
- reinstatement will adversely affect the priority of the mortgage lien.

ii. Incurred Costs

(A) Property Inspections/Preservation

When a Mortgage in Default is reinstated, the Mortgagee may charge the Borrower the costs of property inspections and/or preservation, so long as the costs are:

- reasonable and customary for those services, as established in the Mortgagee Property Preservation and Protection Action section; and
- consistent with HUD requirements, state law, and security instruments.

(B) Inspection Cost Collected from Borrower

The Mortgagee may collect the cost of the inspections from the Borrower only when:

- the Mortgage was reinstated or paid in full;
- the Mortgagee has performed and properly documented the inspections pursuant to HUD requirements; and
- the cost of each inspection was reasonable and within the cost limitation established by HUD.

The Mortgagee must not collect inspection costs from the Borrower's escrow account or charge for an Occupancy Inspection performed after successful contact with the Borrower or occupant.

(C) Attorney’s and Trustees’ Fees

If the Mortgagee cancels a foreclosure action for a Loss Mitigation Option, a reinstatement, or a payment in full, the Mortgagee may charge the Borrower for attorney’s fees as follows:

- The attorney’s fees to be paid by the Borrower must be commensurate with the actual work performed to that point.
- The amount charged may not be in excess of the fee that HUD has established as reasonable and customary for claim purposes.

iii. Reinstatement during CWCOT

If the Mortgagee is using CWCOT procedures and the Borrower reinstates the Mortgage after foreclosure has been instituted, the Mortgagee must:

- cancel the appraisal if the appraisal has not yet been completed; or
- request that the Borrower reimburse the Mortgagee for the cost of the appraisal as part of foreclosure-related expenses, if the appraisal cost was validly incurred.

iv. Reporting Reinstatements

When a Delinquent Mortgage is reinstated, the Mortgagee must report the appropriate Account Reinstated Code in SFDMS to indicate whether:

- use of Repayment Plans or HUD's Loss Mitigation Options assisted in the reinstatement;
- reinstatement was due to a sale of the Property using a mortgage assumption; or
- the Borrower was able to reinstate the Mortgage on their own.

p. Foreclosure (11/10/2026)

When a Borrower with a Mortgage in Default cannot or will not resume and complete their Mortgage Payments, the Mortgagee must take steps to acquire the Property or see that it is acquired by a third party. Before starting foreclosure, the Mortgagee must review its servicing record to be certain that servicing has been performed in accordance with HUD guidance. When foreclosure is appropriate, Mortgagees must initiate and complete foreclosure in a timely manner.

i. Mortgagee Action before Initiation of Foreclosure

The Mortgagee must exercise reasonable diligence in collecting past due Mortgage Payments by:

- utilizing Early Delinquency Servicing Workout tools;
- determining eligibility of HUD's Loss Mitigation Program when appropriate;
- performing the first legal action to initiate foreclosure, to acquire title and possession of the Property, when necessary;
- ensuring the Mortgage has been accurately reported to consumer reporting agencies in accordance with applicable federal law; and
- ensuring any former Borrower, co-Borrower and/or co-signer personally liable for payment of the mortgage debt has been notified, as appropriate.

(A) Assignments for Special Mortgages

The Mortgagee must not foreclose on Mortgages insured pursuant to Sections 203(q), 247, and 248 of the National Housing Act. The Mortgagee must comply with HUD's collection communication requirements and may assign the Mortgage to HUD as follows:

- Section 203(q) Mortgages: may assign the Mortgage to HUD, after the Mortgage has been in Default for 90 Days.
- Section 247 Mortgages: may assign the Mortgage to HUD, after the Mortgage has been in Default for 180 Days.
- Section 248 Mortgages: may assign the Mortgage to HUD, after the Mortgage has been in Default for 90 Days.

(B) Time Frame for Utilization of Loss Mitigation or Initiation of Foreclosure

The Mortgagee must utilize a Loss Mitigation Option or initiate foreclosure within six months of the date of Default. FHA considers the Mortgagee to have satisfied this requirement if, within the six-month time frame, the Mortgagee initiates the first legal action to begin foreclosure or the Borrower:

- enters into or is performing as agreed on a Repayment Plan or Forbearance;
- completes a refinance of an insured cooperative housing Mortgage;
- has been approved for a Permanent Home Retention Option;
- executes a PFS ATP; or
- executes a DIL agreement.

(C) When to Initiate Foreclosure

After at least three consecutive full monthly Mortgage Payments are due but unpaid, a Mortgagee may initiate a foreclosure for monetary Default if one of the following conditions is met:

- the Mortgagee has completed its review of the Borrower's initial complete loss mitigation request and, if applicable, of any subsequent complete loss mitigation request after a change in the Borrower's circumstances that impacts their eligibility for a Loss Mitigation Option, and:
  - determined that the Borrower does not qualify for a Loss Mitigation Option;
  - properly notified the Borrower of this decision; and
  - rejected any available appeal by the Borrower;
- the Borrower has failed to perform under a Loss Mitigation Agreement, and the Mortgagee has determined that the Borrower is ineligible for other Loss Mitigation Options; or
- the Mortgagee has been unable to determine the Borrower's eligibility for any Loss Mitigation Option due to the Borrower not responding to the Mortgagee's efforts to contact the Borrower.

(D) Exceptions to Foreclosure Initiation Time Frame

(1) Standard

A Mortgagee may initiate foreclosure on a Delinquent Mortgage if one of the following conditions is met:

- the Mortgagee has determined that the mortgaged Property has been abandoned or has been vacant for more than 60 Days and the Mortgagee was unable to determine the Borrower's eligibility for any Loss Mitigation Option due to the Borrower not responding to the Mortgagee's efforts to contact the Borrower;
- the Borrower has notified the Mortgagee in writing that they have no intention of fulfilling their obligation under the Mortgage after being clearly advised of the Loss Mitigation Options available for relief, including PFS and DIL;
- the mortgaged Property is not the Borrower's Principal Residence and it is occupied by tenants who are paying rent, but the Rental Income is not being applied to the mortgage debt; or
- the Property is owned by a corporation or partnership.

(a) Vacant or Abandoned Properties

If the Mortgage is in Default, the Mortgagee must commence foreclosure:

- no later than six months after the date of Default; or
- no later than 120 Days after the latter of the date that:
  - the Property becomes vacant;
  - the Property is discovered or should have been discovered vacant or abandoned; or
  - for Properties that have two, three, or four units, all units are discovered or should have been discovered vacant or abandoned.

If the Mortgagee fails to inspect the Property within the required time period, or fails to discover the vacancy, the vacancy date will be the last date on which the Mortgagee should have performed the inspection.

If the Property becomes vacant prior to an inspection and the Mortgagee has knowledge of such vacancy, then the date the Property became vacant is the vacancy date.

(b) Prohibition of Foreclosure due to State Legislation

In states where the Mortgagee must delay, cancel, and/or reschedule a foreclosure action to comply with state law requirements, HUD provides an automatic 90-Day extension after the expiration of the time during which foreclosure is prohibited to commence, where:

- the foreclosure sale would have been conducted in the required time frame but was canceled to comply with state law; and
- the initial legal action to commence foreclosure was timely.

(c) Prohibition of Foreclosure due to Federal Law or Regulations

Where a federal regulation requires a delay in the initiation of foreclosure, the Mortgagee must initiate foreclosure no later than 90 Days after the expiration of the time during which foreclosure is prohibited. HUD provides an automatic 90-Day extension to commence or, if applicable, recommence foreclosure within 90 Days. The status of the Defaulted Mortgage should be reported in SFDMS using the established Delinquency/Default Reason (DDR) Code for federally mandated delay.

(d) Prohibition of Foreclosure due to Bankruptcy

If federal bankruptcy does not permit commencement of foreclosure within the standard six-month time frame, or requires foreclosure to be discontinued, HUD provides an automatic extension for the Mortgagee to commence or, if applicable, recommence foreclosure within 90 Days after the applicable release of stay or bankruptcy discharge date.

(e) Prohibition of Foreclosure due to Servicemembers Civil Relief Act

Mortgagees are allowed an automatic 90-Day extension from the date the applicable SCRA foreclosure moratorium expires.

(f) Moratorium on Foreclosure due to Disaster

Mortgages secured by Properties in Presidentially-Declared Major Disaster Areas (PDMDA) are subject to a 90-Day moratorium on the initiation of foreclosures and foreclosures already in process following the disaster.

HUD provides the Mortgagee an automatic 90-Day extension from the date of the moratorium expiration date to commence or recommence foreclosure action or evaluate the Borrower under HUD's Loss Mitigation for Borrowers in PDMDAs.

(2) Automatic Extensions for Foreclosure Initiation Time Frame for Loss Mitigation Option

HUD provides automatic 90-Day extensions to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure, provided the Mortgagee has:

- evaluated and approved the Borrower for a Loss Mitigation Option prior to the expiration of the initial six-month period to initiate foreclosure, or issued an ATP in the PFS Program resulting in early termination or option failure;
- reported the Loss Mitigation Option via SFDMS; and

- initiated foreclosure action after reviewing the Borrower for other Loss Mitigation Options from the date the Borrower defaulted under a Loss Mitigation Option or a TPP Agreement failed.

Mortgagees may use these automatic extensions as outlined in Appendix 6.1 – Automatic Extensions to HUD's Initiation of Foreclosure Timeline.

HUD does not provide automatic extensions for completion of a DIL; the Mortgagee must submit a request for extension of time for completion of a DIL to HUD for approval via EVARS. HUD does not provide automatic extensions for attempting an assumption.

(3) Loss Mitigation Denial

If the Permanent Home Retention Option or OWL is denied, the Mortgagee must evaluate the Borrower for a Home Disposition Option. If the Borrower is denied for a Home Disposition Option, the Mortgagee must commence, recommence, or resume foreclosure no later than 90 Days after denial of the Loss Mitigation Option.

HUD provides an automatic 90-Day extension to the initiation of foreclosure timeline in any case in which the Mortgagee needs additional time to comply with the appeals process required by the CFPB Loss Mitigation regulations under RESPA (Regulation X) at 12 CFR § 1024.41.

The 90-Day extension begins on the date the Mortgagee denies loss mitigation and sends the Borrower the notice required under CFPB regulations.

(4) Requests for Other or Additional Extensions to the Time Requirement to Utilize Loss Mitigation Option

For additional time extensions, and for extensions of time for any other reason not listed above, the Mortgagee must request the extension via EVARS prior to the expiration of the existing time frame and provide:

- the dates required notices were sent to the Borrower;
- the date the Mortgagee received the Complete Loss Mitigation Request;
- the date the Mortgagee approved or denied the Borrower for Loss Mitigation Options; and
- a clear explanation of the Mortgagee's need for an extension to this deadline.

(5) Required Documentation

The Mortgagee must retain documentation of form HUD-50012, *Mortgagee's Request for Extensions of Time*, in the Servicing File and the Claim File and must ensure that all extensions of time to initiate foreclosure are reflected in its claim submission.

For all extensions of time requests, the Mortgagee must:

- note the reason for the extension and relevant dates that necessitated the extension and retain documentation supporting the reason and dates in the Servicing File and the Claim File;
- report the applicable status codes in SFDMS; and
- report on form HUD-27011, Part A:
  - the dates relating to the extension;
  - in block 19, the Expiration Date of the 90-Day extension being used;
  - in the "Mortgagee's Comments" section, the extension being used and the reason(s) for the extension; and
  - in the "Mortgagee's Comments" section, the statement, "I certify that the use of this extension is for the reason(s) stated above."

(E) Curtailment of Claims and Unreasonable Property Preservation and Protection Payments

Mortgagees are responsible for curtailment of interest and exclusion of unreasonable Property P&P payments.

For each curtailment time frame, the time frame begins on the earlier of the date the action should have been taken in accordance with HUD requirements or the actual date the action was taken.

(F) Management Review

Prior to the initiation of foreclosure, the Mortgagee must:

- develop a form or checklist to document that they have reviewed the Mortgage for foreclosure. A supervisor higher than the person submitting the Mortgage for foreclosure must sign or electronically acknowledge that they have reviewed and approve the document evidencing the decision to foreclose;
- ensure the Mortgage Holder approves of the Mortgagee's decision to foreclose, or has the delegated authority to make such decisions; and
- continue to service the Mortgage throughout foreclosure proceedings and to work with the Borrower to avoid foreclosure pursuant to the Loss Mitigation During the Foreclosure Process section requirements and program requirements related to changes in the Borrower's financial circumstances.

(G) Manufactured Housing Review

Due to the title evidence requirements for Manufactured Housing, the Mortgagee must:

- review each Property at the time of foreclosure referral to determine if the collateral for the FHA-insured Mortgage is a Manufactured Home; and
- ensure that all the Title Evidence for Manufactured Housing requirements are met before conveying a Manufactured Home to HUD.

(H) Property Assessed Clean Energy Obligation Review

The Mortgagee must:

- review each Property at the time of foreclosure referral to determine if the Property is encumbered with a PACE obligation;
- confirm that any identified PACE obligation may only become subject to an enforceable claim (i.e., a lien) for delinquent, regularly scheduled PACE special assessment payments, and otherwise complies with the following eligibility and acceptability criteria for Properties with a PACE obligation:
  - FHA case number must have been assigned prior to January 7, 2018;
  - under the laws of the state where the Property is located, the PACE obligation is collected and secured by the creditor in the same manner as special assessment taxes against the Property;
  - the Property may only become subject to an enforceable claim (i.e., lien) that is superior to the FHA-insured Mortgage for delinquent, regularly scheduled PACE special assessment payments. The Property shall not be subject to an enforceable claim (i.e., lien) superior to the FHA-insured Mortgage for the full outstanding PACE obligation at any time (i.e., through acceleration of the full obligation). However, a notice of the lien for the full PACE obligation may be recorded in the land records;
  - there are no terms or conditions that limit the transfer of the Property to a new homeowner. Legal restrictions on conveyance arising from a PACE obligation that could require consent of a third party before the owner can convey the Real Property are prohibited, unless such provisions may be terminated at the option of, and with no cost to, the homeowner;
  - the existence of a PACE obligation on a Property is readily apparent to Mortgagees, Appraisers, Borrowers, and other parties to an FHA-insured Mortgage transaction in the public records and must show the obligation amount, the expiration date, and cause of the expiration of the assessment. In no case may Default accelerate the expiration date; and
  - in the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation continues with the Property, causing the new homeowner to be responsible for the payments on the outstanding PACE amount; and
- contact HUD for guidance if a noncompliant PACE obligation is identified.

ii. Conduct of Foreclosure Proceedings

When foreclosure is necessary, the Mortgagee must give timely notice to HUD via SFDMS and exercise reasonable diligence in processing and completing foreclosure proceedings to acquire good marketable title and possession of the Property. HUD expects Mortgagees to comply with all federal, state, and local laws when prosecuting a foreclosure and pursuing a possessory action.

(A) Initiating Foreclosure

(1) First Legal Action to Initiate Foreclosure

The Mortgagee must perform the first legal action to initiate foreclosure for each state as provided in Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames.

(2) Notice to HUD of Foreclosure Initiation

The Mortgagee must give notice to HUD within 30 Days of initiating foreclosure by reporting the foreclosure status in the monthly SFDMS report.

The Mortgagee must report the foreclosure status for the current cycle or following cycle in which the first required legal action is taken to initiate foreclosure.

(3) Notice to HOA or Condominium Associations

As part of the foreclosure proceedings, the Mortgagee must notify and serve all Interested Parties of the pending foreclosure, pursuant to state law. Unless otherwise specified by state law, Interested Parties include all condominium management companies and HOAs that are reflected in the Mortgage/origination documents, recorded covenants/declarations, initial foreclosure referral and/or title search review, or made known to the Mortgagee during the foreclosure proceedings.

(4) Outstanding HOA or Condominium Association Fees

Unless prohibited by state law, the Mortgagee must ensure that outstanding HOA/Condominium Fees are included as part of the foreclosure proceeding.

(B) Servicemembers Civil Relief Act Protection during Foreclosure

The Mortgagee must obtain court permission before foreclosing on a Mortgage falling under provisions of the SCRA. A foreclosure sale or Manufactured Housing repossession during the period of military service and subsequent periods specified within the SCRA is invalid unless it is:

- made pursuant to a court order granted before such sale with a return made and approved by the court; or
- held pursuant to a written agreement, entered after the commencement of Active Duty, between the parties involved.

(C) Loss Mitigation during the Foreclosure Process

The Mortgagee may evaluate the Borrower for a Loss Mitigation Option during the foreclosure process where:

- the Borrower submits their initial Complete Loss Mitigation Request; or
- the Mortgagee has determined that the Borrower was ineligible for loss mitigation based on a Complete Loss Mitigation Request and a change in circumstances has occurred so that a Borrower may be eligible for a subsequent loss mitigation review.

(1) Requests Received during Foreclosure

The following describes Mortgagee action regarding foreclosure proceedings and loss mitigation requests, depending on when the request is received by the Mortgagee.

(a) 45 or More Days to Scheduled Foreclosure Sale Date

(i) Response

When the loss mitigation request is received 45 Days or more prior to the scheduled foreclosure sale date, the Mortgagee must notify the Borrower in writing within five business days of receiving the request that:

- the Borrower's request has been received; and
- the request is complete or incomplete.

(ii) Review

Within 30 Days of receiving a Complete Loss Mitigation Request, the Mortgagee must:

- review a Borrower's request for eligibility for all Loss Mitigation Options; and
- provide the Borrower with a notice in writing stating the Mortgagee's determination of which Loss Mitigation Option, if any, it will offer to the Borrower.

(iii) Foreclosure Action

A Mortgagee must not move forward with a scheduled foreclosure sale during its loss mitigation review.

(b) More than 37 Days but Less than 45 Days to Scheduled Foreclosure Sale Date

(i) Review

Within 30 Days of receiving a Complete Loss Mitigation Request, the Mortgagee must review a Borrower's request for eligibility for Loss Mitigation Options when received more than 37 Days but less than 45 Days to the scheduled foreclosure sale date.

If an incomplete request is received and is not completed despite the Mortgagee's repeated requests to the Borrower for information, the Mortgagee may, at its discretion, evaluate an incomplete loss mitigation request and offer a proprietary, non-incentivized Loss Mitigation Option.

(ii) Foreclosure Action

The Mortgagee must not move forward with a scheduled foreclosure sale during its loss mitigation review.

(c) 37 or Fewer Days Prior to the Scheduled Foreclosure Sale Date

(i) Review

A Mortgagee must use its best efforts to complete a thorough and accurate review when the Borrower's request is received 37 Days or fewer, prior to the scheduled foreclosure sale date.

(ii) Foreclosure Action

HUD does not require the Mortgagee to suspend the foreclosure sale. The Mortgagee may proceed with a foreclosure sale if the Mortgagee:

- determines after its review of available information that a Borrower is ineligible for loss mitigation; or
- using its best efforts, is still unable to complete a thorough and accurate review of a Borrower's request by the scheduled foreclosure sale date.

(2) Terminating Foreclosure Proceedings for Loss Mitigation

When a Borrower requests loss mitigation assistance for the first time during a Default episode after the Mortgagee has initiated foreclosure, the Mortgagee must suspend and/or terminate the foreclosure proceedings, depending on the state law requirement, after the Mortgagee has:

- verified that a Borrower qualifies for a Loss Mitigation Option;
- allowed the Borrower at least 14 Days to consider the Mortgagee's offer of loss mitigation assistance, if the request for loss mitigation was received more than 37 Days prior to the scheduled foreclosure sale date; and
- provided a TPP agreement to the Borrower, received an executed Loss Mitigation Agreement, where applicable, or sales contract from the Borrower.

If state law requires the Mortgagee to cancel a foreclosure action and then requires the Mortgagee to re-initiate the action at a later date, if needed, the Mortgagee must request HUD approval via EVARS for an extension of time to the first legal action deadline prior to approving the Borrower for loss mitigation.

(3) Communication Between Departments

The Mortgagee must ensure that strong communication lines are established between the Loss Mitigation and Foreclosure departments to facilitate the coordination of loss mitigation efforts and the sharing of documentation and information relating to a Borrower's delinquency. Both departments must be aware when a Borrower's file is under review for HUD's Loss Mitigation Program.

(D) Borrower Sale of the Property before Foreclosure Sale

HUD encourages the Mortgagee, when possible, to provide the Borrower with an opportunity to sell the Property and to provide a reasonable time to complete the sale. The Mortgagee should not initiate foreclosure if it appears that a sale is probable and should accept payments tendered while the Property is for sale and before foreclosure is started.

(E) Reasonable Diligence in Completing Foreclosure

(1) Definition

The Reasonable Diligence Time Frame is the time period beginning at the earlier of the date the first legal action should have been filed in accordance with HUD time frames or the date the actual first legal action required by the jurisdiction to commence foreclosure was taken, and ending with the later date of acquiring good marketable title to, and possession of, the Property.

(2) Standard

The Mortgagee must exercise reasonable diligence when processing foreclosures and acquiring title to and possession of Properties, in accordance with HUD's Reasonable Diligence Time Frames.

When circumstances beyond the Mortgagee's control occur, the Mortgagee may treat delays in completing the foreclosure process as exceptions to the Reasonable Diligence Time Frames and may exclude such delays when calculating the time to complete a foreclosure if an extension has been granted by HUD. Mortgagees must not file an EVARS request for the automatic extensions as outlined in Appendix 6.1 - Automatic Extensions to HUD's Initiation of Foreclosure Timeline.

(a) Delay due to Use of Loss Mitigation Home Retention Option

When determining compliance with the Reasonable Diligence Time Frame, the Mortgagee may exclude the time that the Borrower was performing under a Repayment Plan, Forbearance, or TPP.

(b) Delay due to Foreclosure Mediation

Where mediation is required after the initiation of foreclosure but before the foreclosure sale, the Mortgagee may exclude the time required to complete the mediation when determining compliance with the Reasonable Diligence Time Frame.

(c) Delay due to Active Duty Military Service

If a Borrower is on Active Duty military service and the Mortgage was obtained prior to entry into Active Duty military service, the Mortgagee may exclude the period during which the Borrower is on Active Duty military service when computing the Reasonable Diligence Time Frame.

(d) Delay due to Bankruptcy

When a Borrower files bankruptcy after foreclosure proceedings have been initiated, an automatic 90-Day extension for foreclosure and acquisition of the Property will be allowed if:

- the Mortgagee ensures that all necessary bankruptcy-related legal actions are handled in a timely and effective manner;
- the case is promptly referred to a bankruptcy attorney after the bankruptcy is filed; and
- the Mortgagee monitors the action to ensure that the case is timely resolved through dismissal, termination of the automatic stay, or trustee abandonment of all interest in the secured Property.

The time frame for completing the bankruptcy action will vary based on the chapter under which the bankruptcy is filed.

(i) Chapter 7 Bankruptcy

HUD allows the Mortgagee an additional 90 Days from the date of the release of stay of the Chapter 7 bankruptcy to commence or recommence the foreclosure.

(ii) Chapter 11, 12, or 13 Bankruptcy

When the Mortgagee cannot proceed with foreclosure action because of a Chapter 13 (or Chapter 11 or 12) bankruptcy, the Mortgagee must closely monitor the payments required by the bankruptcy court. If the Borrower becomes 60 Days delinquent in payments required under a Chapter 13 (or Chapter 11 or 12) plan, the Mortgagee must ensure that prompt legal action is taken to resolve the matter.

Any delay the Mortgagee encounters must be fully documented and must be beyond the Mortgagee's control.

(e) Delay in Acquiring Possession

When a separate legal action is necessary to gain possession following foreclosure, an automatic extension of the Reasonable Diligence Time Frame will be allowed to cover the actual time necessary to complete the possessory action.

HUD provides this automatic extension if the Mortgagee takes the first required public legal action to initiate the eviction or possessory action within 30 Days of the later of:

- the completion of foreclosure proceedings; or
- the expiration of federal or local restrictions on eviction.

The additional time needed under applicable federal, state, or local laws to obtain possession of a Property is taken into consideration when evaluating a Mortgagee's compliance with HUD's Reasonable Diligence Time Frame. Upon the expiration period associated with the applicable occupancy rights, Mortgagees are expected to proceed promptly with possessory actions.

(3) Required Documentation

The Mortgagee must document in the Servicing File and the Claim File any delay in completing foreclosure and all activities performed by the Mortgagee to mitigate and abide by these time frames. The Mortgagee must maintain a comprehensive audit trail and chronology to support any delay in compliance with the Reasonable Diligence Time Frames.

Where the Mortgagee has submitted a request for an extension of time to HUD via EVARS, the Mortgagee must maintain a copy of HUD's written response in the Servicing File and the Claim File. The request should be made as soon as possible, but before the time limit for that action expires.

For automatic extensions, the Mortgagee must reflect these extensions in form HUD-27011 and retain in the Servicing File and the Claim File documentation supporting those extensions.

(F) Allowable Foreclosure Attorney Fees and Fees Associated with Bankruptcy Clearance, Possessory Actions, and Completion of a DIL

(1) Definition

The Fannie Mae Allowable Foreclosure Attorney Fees Exhibit provides the maximum amount of foreclosure attorney fees that HUD will reimburse for work actually performed.

The Fannie Mae Allowable Bankruptcy Attorney Fees Exhibit provides the maximum amount of bankruptcy attorney fees that HUD will reimburse for work actually performed.

Appendix 5.0 – HUD Schedule of Standard Possessory Action and Deed-In-Lieu of Foreclosure Attorney Fees provides the maximum amount of fees that HUD will reimburse for work actually performed related to possessory actions and the completion of a DIL.

(2) Standard

HUD will reimburse Mortgagees for reasonable and customary fees for work actually performed related to the current Default episode that were paid to attorneys and trustees in connection with the foreclosure of a Mortgage, fees associated with bankruptcy clearance, possessory actions and/or completion of a DIL.

For additional expenses incurred due to required legal actions, the Mortgagee may claim reimbursement for these costs by:

- providing a documented cost breakdown and written justification with the claim submission and retaining a copy in the Claim File; and
- filing a supplemental claim for amounts above the maximum fee.

If a Mortgagee suspends or cancels a foreclosure action to perform loss mitigation, or if the Mortgage is reinstated or paid in full, the Mortgagee may only charge the Borrower for attorney fees incurred for the work performed up to the point of the cessation.

(a) Allowable Foreclosure Attorney Fees

Mortgagees may claim reimbursement from HUD for attorney fees related to routine foreclosure actions for the preferred method of foreclosure based on the Fannie Mae Allowable Foreclosure Attorney Fees Exhibit in the Fannie Mae Servicing Guide Exhibits & Resources. The amount claimed for attorney fees cannot exceed the actual fees charged for work performed.

Mortgagees may not request HUD approval to proceed with a method of foreclosure in states where an amount is not specified on the Fannie Mae Allowable Foreclosure Attorney Fees Exhibit. The footnotes included are not applicable to FHA-insured Mortgages.

Fannie Mae revises this Exhibit frequently, so Mortgagees must ensure the fees claimed for reimbursement are based on the Exhibit in effect as of the date foreclosure is initiated. HUD reserves the right to revise amounts which it considers reasonable and customary at any time.

Mortgagees may claim no more than 75 percent of the maximum attorney fee for fees incurred for a routine foreclosure that was not completed because any of the following occurred after the Mortgagee initiated foreclosure:

- the Borrower filed a bankruptcy petition;
- the Borrower successfully completed a Home Retention Option;
- the Borrower successfully completed a PFS; or
- the Borrower executed a DIL.

(b) Allowable Bankruptcy Attorney Fees

Mortgagees may claim reimbursement from HUD for routine bankruptcy clearance actions based on the Fannie Mae Allowable Bankruptcy Attorney Fees Exhibit in the Fannie Mae Servicing Guide Exhibits & Resources. The amount claimed cannot exceed the actual fees charged for work performed.

Fannie Mae revises this Exhibit frequently, so Mortgagees must ensure the fees claimed for reimbursement are based on the Exhibit in effect as of the date the Borrower's bankruptcy is filed. HUD reserves the right to revise amounts which it considers reasonable and customary at any time.

(c) Fees Associated with Possessory Actions or Completion of a DIL

Mortgagees may claim reimbursement from HUD for the fees associated with possessory action and completion of a DIL as listed in Appendix 5.0 – HUD Schedule of Standard Possessory Action and Deed-In-Lieu of Foreclosure Attorney Fees. The amount claimed cannot exceed the actual fees charged for work performed.

(3) Required Documentation

Mortgagees are expected to maintain documentation in the Servicing File and the Claim File to support all allowable fees.

(G) Electronic Record Retention of Foreclosure-Related Documents

The Mortgagee must retain documents relating to loss mitigation review in electronic format, in addition to requirements for retaining hard copies or originals of foreclosure-related documents, for foreclosures occurring on or after October 1, 2014. These documents include, but are not limited to:

- evidence of the Mortgagee's foreclosure committee recommendation;
- the Mortgagee's Referral Notice to a foreclosure attorney, if applicable; and
- a copy of the document evidencing the first legal action necessary to initiate foreclosure and all supporting documentation.

iii. Foreclosure Sales and Post-Foreclosure Sales Efforts

(A) Property Valuation and Commissioner's Adjusted Fair Market Value

(1) Required Appraisal

Unless otherwise directed by HUD, Mortgagees must first obtain and review for accuracy an "As-Is" FHA appraisal, which includes both an interior and exterior evaluation of the Property. The FHA appraisal must be completed in accordance with the Claims Without Conveyance of Title Properties requirements. If the Property is occupied and an interior appraisal cannot be obtained, an exterior-only appraisal may be used.

(a) Appraisal Validity Period

The appraisal must be valid on the date of the foreclosure sale. Appraisals are valid for 180 Days from the effective date of the appraisal report.

(b) Extension to Appraisal Validity Period

HUD provides an automatic 30-Day extension from the appraisal expiration date for delays due to bankruptcy, court delays, or delays outside of the Mortgagee's control. The Mortgagee must request and obtain HUD approval via EVARS for extensions beyond the automatic 30-Day extension.

(c) Subsequent Appraisals for Foreclosure Sales and Post-Foreclosure Sales Efforts

If a Property that had an exterior-only appraisal becomes vacant, the Mortgagee must obtain a new appraisal that includes both an interior and exterior inspection if:

- before foreclosure, any delay due to obtaining a new appraisal will not cause the foreclosure sale to be canceled; or
- after foreclosure, the Mortgagee conducts Post-Foreclosure Sales Efforts.

Mortgagees must use an FHA Roster Appraiser to conduct the new appraisal.

HUD will reimburse the Mortgagee for the cost of one new appraisal following vacancy through the FHA insurance claim.

(d) Damage to the Property after Appraisal

The Mortgagee must request a variance from HUD via EVARS to proceed with the current appraised value if the Mortgagee becomes aware that the Property sustained significant damage, other than damage resulting from Borrower neglect, that may impact the value after the appraisal was

completed. If HUD denies this request, additional instructions will be provided with the denial.

(e) Updated Appraisals due to Postponed Foreclosure Sales

If the foreclosure sale does not take place within 180 Days from the effective date of the appraisal, and within such additional time provided under Extension to Appraisal Validity Period, the Mortgagee must request an updated appraisal and obtain an updated Commissioner's Adjusted Fair Market Value (CAFMV).

(f) Required Documentation

Mortgagees must upload the appraisal information and related FHA case number through HUD's system of record (P260) within 30 Days of the date of the appraisal.

(2) Determining the Commissioner's Adjusted Fair Market Value

(a) Definition

The Commissioner's Adjusted Fair Market Value (CAFMV) is HUD's estimate of the Fair Market Value (FMV) of the mortgaged Property and is published in FHA Connection (FHAC).

In cases where the jurisdiction mandates a specific bid at the foreclosure sale, that becomes the CAFMV for the foreclosure sale.

(b) Standard

(i) Foreclosure Sales

After determining the Property's appraised value using the most recent appraisal, the Mortgagee's authorized employees must access the CAFMV link in FHAC to determine a Property's CAFMV. The CAFMV remains valid and in effect for 120 Days from the date of the appraisal. Mortgagees may, but are not required to, update the CAFMV if the CAFMV is updated by HUD within the 120-Day validity period. If the 120-Day validity period expires, Mortgagees must update the CAFMV.

(ii) Post-Foreclosure Sales Efforts

Prior to listing the Property for Post-Foreclosure Sales Efforts, the Mortgagee must check FHAC. If the CAFMV has been updated, the Mortgagee must use the updated CAFMV for Post-Foreclosure Sales Efforts. In addition, if the Property was valued through an exterior-only appraisal and is vacant following the foreclosure sale, the Mortgagee must

obtain a new appraisal that includes both an interior and exterior inspection and update the CAFMV accordingly.

(B) Qualification Criteria for Claims Without Conveyance of Title

(1) Definition

Claims Without Conveyance of Title (CWCOT) is a procedure under which the Mortgagee attempts to secure a third-party purchaser for the mortgaged Property so that conveyance to HUD is not required in exchange for mortgage insurance benefits.

(2) Standard

Mortgagees must use the Commissioner's Adjusted Fair Market Value (CAFMV) for all foreclosure sales and Post-Foreclosure Sales Efforts associated with defaulted FHA-insured Mortgages to utilize the CWCOT procedures.

A Mortgage is eligible for CWCOT when all the following criteria are met:

- the FHA-insured mortgage insurance is still active for the FHA case number;
- the Mortgagee has worked with the Borrower to exhaust all applicable Home Retention Options and has determined that the Borrower's case does not meet the criteria for a Home Disposition Option, or the Mortgagee has been unable to locate the Borrower and the Property is vacant or has been abandoned by the Borrower; and
- the Property has no Surchargeable Damage.

(C) Bidding at the Foreclosure Sale

At the foreclosure sale, the claim and disposition requirements depend on whether the successful bidder is the Mortgagee or a third party and on the bid amount relative to the CAFMV.

The Mortgagee must bid the CAFMV to file a CWCOT claim.

All conveyances must meet the requirements for Conveyance of Acquired Properties.

(1) Mortgagee as Successful Bidder

(a) Amount Equal to the CAFMV

If the Mortgagee is the successful bidder for an amount equal to the CAFMV, the Mortgagee may:

- retain the Property and file a claim for insurance benefits under CWCOT;

- convey the title to the Property to HUD and file a claim for insurance benefits as a conveyance claim; or
- proceed to Post-Foreclosure Sales Efforts.

(b) Amount Less than CAFMV

Where the Mortgagee is the successful bidder at the foreclosure sale for an amount less than the CAFMV, the Mortgagee may either:

- convey the Property to HUD and file a claim for insurance benefits as a conveyance claim; or
- retain title and not file a claim for any insurance benefits.

(c) Amount Greater than CAFMV

Where the Mortgagee's bid exceeds the CAFMV, resulting in the Mortgagee acquiring title to the Property at a foreclosure sale, unless the sheriff or other appropriate local authority has mandated the subject bid as the minimum bid that could be set for the Property, the Mortgagee is deemed to have elected to retain title of the Property, and the Mortgagee's FHA claim for insurance benefits will be calculated in accordance with 24 CFR § 203.401(b). The Mortgagee may not utilize Post-Foreclosure Sales Efforts and may not convey title to the Property to HUD.

(2) Third Party as Successful Bidder

(a) Amount Less than CAFMV

Where a third party is the successful bidder at the foreclosure sale for an amount less than the CAFMV, the Mortgagee may not file a claim for any insurance benefits.

(b) Amount Equal to or Greater than CAFMV

Where a third party is the successful bidder at the foreclosure sale for an amount equal to or greater than the CAFMV, the Mortgagee may submit its claim for insurance benefits under CWCOT.

(3) Borrower or Third Party Redemption

Notwithstanding the foreclosure sale, the Borrower or a third party may exercise a legal right and redeem the Property.

Where the Borrower or a third party redeems the Property and acquires title for an amount not less than the CAFMV, the Mortgagee may submit its claim for insurance benefits under CWCOT.

(D) CWCOT Post-Foreclosure Sales Efforts

(1) Definition

Post-Foreclosure Sales Efforts refer to an additional opportunity to attempt to sell a Property at the CAFMV prior to conveying the Property to HUD.

(2) Standard

(a) Eligibility

Mortgagees may participate in Post-Foreclosure Sales Efforts only if the Mortgagee bids the CAFMV at the foreclosure sale.

(b) Requirements for Post-Foreclosure Sales Efforts

To facilitate CWCOT Post-Foreclosure Sales Efforts, the Mortgagee may contribute an additional amount needed to raise a third party's bid to the CAFMV and allow the sale of the Property to such third party. HUD will not reimburse any contribution by the Mortgagee to facilitate the sale through the FHA insurance claim.

The Mortgagee or its third-party provider must indicate that the Property is being sold in an as-is condition, and the condition is unknown and may include defects, possible health or safety hazards, or debris, or the Property is located in a Special Flood Hazard Area (SFHA).

Where the Property is occupied, based on the appraisal or property inspection, the Mortgagee must clearly indicate that the Property is occupied in the auction information.

(c) CWCOT Post-Foreclosure Sales Period

Mortgagees that utilize Post-Foreclosure Sales Efforts must list the Property for sale to all third parties for a 60-Day period.

(d) Extensions of Time Frames to Engage in Post-Foreclosure Sales Efforts

HUD will provide the Mortgagee with an automatic extension of the conveyance time frames to attempt Post-Foreclosure Sales Efforts and commence possessory action, where applicable, for 60 Days from the date the foreclosure deed is filed for recording or the expiration of the redemption period, if applicable, in circumstances where the Mortgagee complied with all foreclosure time frames.

(i) Conveyance Time Frame if Property Does Not Sell

If the Property does not sell through Post-Foreclosure Sales Efforts, the Mortgagee must convey the Property to HUD within 30 Days of the end of the post-foreclosure sales period.

(ii) Extension of Conveyance Time Frame to Allow for Closing

Where a sales contract has been ratified before the expiration of the 60-Day period, HUD will provide the Mortgagee with an additional, automatic 60-Day extension to the deadline for conveyance, from the date the sales contract has been ratified, to allow for closing of the sale.

(e) Preservation and Protection during Post-Foreclosure Sales Periods

The Mortgagee must preserve and protect the Property in accordance with HUD requirements during the post-foreclosure sales periods and throughout any approved extensions to deadlines for conveyance. HUD will reimburse the Mortgagee through the claim for all reasonable preservation, protection, and eviction expenses incurred prior to the expiration of any extension of the deadlines for conveyance, as listed in Property Preservation Allowances.

(f) Third Party as Successful Bidder at Post-Foreclosure Sales Efforts

(i) Amount Less than CAFMV

Where a third party is the successful bidder at Post-Foreclosure Sales Efforts for an amount less than the CAFMV, including any Mortgagee contribution, the Mortgagee may not file a claim for any insurance benefits.

(ii) Amount Equal to or Greater than CAFMV

Where a third party is the successful bidder at Post-Foreclosure Sales Efforts for an amount equal to or greater than the CAFMV, the Mortgagee may submit its claim for insurance benefits under CWCOT.

(g) Property Not Sold at Post-Foreclosure Sales Efforts

Where the Property does not sell to a third party at Post-Foreclosure Sales Efforts, the Mortgagee may elect to:

- retain title to the Property and not file a claim for any insurance benefits; or
- convey the title to the Property to HUD and file a claim for insurance benefits as a conveyance claim.

(E) Independent Third-Party Providers

(1) Definition

An Independent Third-Party Provider is a party that conducts the foreclosure sale or Post-Foreclosure Sales Efforts, including marketing efforts in support of such sales under CWCOT procedures, and who is not one of the following:

- an Affiliate or subsidiary of the Mortgagee;
- any entity over which the Mortgagee has significant influence; or
- any entity with which the Mortgagee has a conflict of interest in fact or appearance.

(2) Standard

Where permitted by the jurisdiction, the Mortgagee may utilize an Independent Third-Party Provider to market the Property prior to any foreclosure or Post-Foreclosure Sales Efforts or to conduct such sales to ensure maximum competition for both the foreclosure sale and post-foreclosure sales.

The Mortgagee may only use an Independent Third-Party Provider that agrees, in writing, to share sales and auction reporting information with the Mortgagee and HUD.

For successful third-party sales, HUD will reimburse expenses relating to the Mortgagee's use of an Independent Third-Party Provider to market or conduct the foreclosure sale or Post-Foreclosure Sales Efforts, provided the Property was marketed for a minimum of 15 Days before each scheduled sale. HUD will reimburse such Independent Third-Party Provider expenses incurred for successful third-party sales up to an amount that does not exceed:

- 3 percent of the Property's sales price where the Independent Third-Party Provider markets the Property but does not conduct the sale; or
- 5 percent of the Property's sales price where the Independent Third-Party Provider markets the Property and conducts the sale.

Closing costs of the sale are to be paid by the third-party purchaser or the Mortgagee. Revenue sharing agreements of the reimbursed fee between the Mortgagee and the Independent Third-Party Provider are prohibited.

q. Acquiring Possession (11/10/2026)

On the date the deed is filed for recording, the Mortgagee must certify that the Property is vacant and free of Personal Property, unless HUD has agreed to accept title with the Property occupied. This, and the procedures described below, apply whether title is acquired by foreclosure or by DIL of Foreclosure.

i. Applicable Law Protecting Tenants

When determining compliance with the Reasonable Diligence Time Frame, the Mortgagee may exclude the time required to comply with federal, state, and local laws extending the time required to complete possessory actions.

ii. Identification of Property Occupants

Before completion of foreclosure the Mortgagee must:

- confirm the identity of all occupants;
- determine each occupant's possible rights for continued occupancy under HUD's Occupied Conveyance procedures; and
- follow HUD's Occupied Conveyance procedures by sending occupants the Notice to Occupant of Pending Acquisition (NOPA) 60 to 90 Days before the Mortgagee expects to acquire title.

iii. Notice to Occupant of Pending Acquisition

(A) Definition

The Notice to Occupant of Pending Acquisition (NOPA) is a notice to the Borrower and heads of household that the Mortgagee will be acquiring title to the Property and then conveying the Property to HUD.

(B) Standard

At least 60 Days but not more than 90 Days before the Mortgagee reasonably expects to acquire title, the Mortgagee must notify the Borrower and each head of household occupying a unit of the Property of the possibility that the Mortgagee will convey the Property to HUD following foreclosure. The Mortgagee is not required to postpone the foreclosure sale to comply with the 60-Day requirement, if the foreclosure sale is scheduled for less than 60 Days following the completion of bankruptcy proceedings.

In the event the foreclosure sale is postponed, the NOPA is valid up to 120 Days from the date it was originally mailed.

The NOPA must:

- provide a summary of the conditions under which continued occupancy is permissible;
- advise the Borrower:
  - that potential acquisition of the Property by HUD is pending;
  - that HUD requires Properties be vacant at the time of conveyance to HUD, unless the Borrower or other occupant can meet the regulatory conditions for continued occupancy, the habitability criteria, and the eligibility criteria;
  - of the process for requesting to remain in the Property; and

- the Property must otherwise be vacated before the scheduled time of acquisition; and
- be sent via certified mail or with a signature confirmation service to ensure receipt of the notice by all required occupants.

(C) Required Documentation

The Mortgagee must provide to HUD's MCM by uploading into P260:

- an electronic copy of each NOPA; and
- all documentation and information obtained regarding existing leases and tenancies.

iv. Occupied Conveyance Requests to HUD

(A) Definition

An Occupied Conveyance is the conveyance to HUD of a Property that is not vacant.

(B) Standard

HUD notifies the Mortgagee if it has received an occupant's request to remain in the Property. If the Mortgagee has not received such notification from HUD within 45 Days after sending the notice, the Mortgagee must convey the Property as vacant, unless otherwise directed by the MCM.

(C) Approved Occupied Conveyance Requests

If HUD grants Occupied Conveyance, the Mortgagee must convey the Property occupied under HUD's Occupied Conveyance regulations and procedures provided by the MCM per 24 CFR § 203.670.

(D) Denied Occupied Conveyance Requests

If HUD denies Occupied Conveyance, the Mortgagee must determine if there is occupancy protection under federal, state, or local law that would require the Mortgagee to delay possessory action. If the Mortgagee determines that such laws are applicable, the Mortgagee must:

- follow those requirements before evicting the occupant; and
- attempt to obtain documentation of existing leases and tenancies for the Servicing File and the Claim File as evidence of the applicability of the occupancy protection laws and the additional time needed to comply with them.

v. Rents under Bona Fide Leases

The Mortgagee must attempt to:

- collect rents payable under bona fide leases and tenancies providing post-foreclosure occupancy rights; and
- in the event of Default, take possessory action pursuant to the rental contract terms and applicable law.

The Mortgagee must reflect any rents it received during the term of the bona fide lease or tenancy on its claim for mortgage insurance benefits.

vi. Preservation and Protection Costs due to Extended Lease or Tenancy

The Mortgagee may request reimbursement of additional routine P&P costs, including lawn maintenance and inspections that are incurred as a result of an extended lease or tenancy under applicable law.

vii. Cash for Keys Consideration

(A) Definition

Cash for Keys is a monetary incentive offered to occupants for vacating the Property as an alternative to legal eviction after foreclosure.

(B) Standard

If property occupants fail to vacate the Property after receiving the first Notice to Quit, the Mortgagee may offer up to $3,000 per dwelling in exchange for the occupants vacating the Property within 30 Days of the Cash for Keys offer. Before releasing the funds, the Mortgagee must inspect the Property to ensure that:

- the Property is in Broom-swept Condition; and
- all built-in appliances and fixtures remain in the Property.

(C) Required Documentation

The Mortgagee must document in the Servicing File and the Claim File the date and amount of the Cash for Keys offer, the date of the actual vacancy, and the date the occupant received the funds.

viii. Evictions and Eviction Personnel

(A) Standard

The Mortgagee must ensure that evictions are conducted in accordance with state and local law and send:

- no more than four people for a townhouse or condominium to complete the eviction; and
- no more than six people for a Single Family detached dwelling to complete the eviction.

(B) Required Documentation

The Mortgagee must include in the Servicing File and the Claim File:

- photographs showing that all Personal Property and debris have been removed from the Property as part of the eviction;
- the number of people required and present to complete the eviction;
- whether the eviction was canceled or re-scheduled; and
- documentation supporting reasonable and customary eviction costs, including costs due to state or local law requirements for eviction time frame, removal, or storage.

r. Conveyance of Acquired Properties (11/07/2023)

i. HUD Contact

(A) Mortgagee Compliance Manager

HUD's MCM is the single point of contact to administer Mortgagee compliance functions and Property P&P activities.

(B) P260

P260 is HUD's web-based internet portal, which allows Mortgagees to submit requests, notifications, and documents and obtain approvals for pre- and post-conveyance activities.

ii. Conveyance Time Frame

The Mortgagee must acquire clear, marketable title and transfer the Property to HUD within 30 Days of the latter of:

- recordation of the foreclosure deed;
- recordation date of a DIL of Foreclosure;
- acquisition of the Property;
- expiration of the redemption period; or
- HUD-approved extensions of time.

In cases where the Mortgagee arranges for a direct conveyance of the Property to the Secretary, the Mortgagee must convey the Property to HUD within 30 Days of the end of the Reasonable Diligence Time Frame.

iii. Condition of Properties

(A) Acceptable Conveyance Condition

(1) Definitions

Acceptable Conveyance Condition refers to the required condition of a Property at the time of conveyance to HUD.

Broom-swept Condition refers to the condition of a Property that is, at a minimum, reasonably free of dust and dirt and free of hazardous materials or conditions, Personal Property, and interior and exterior debris.

(2) Standard

At the time of conveyance to HUD, the Mortgagee must ensure that the Property meets all Acceptable Conveyance Conditions as follows:

- The Property is undamaged by fire, flood, earthquake, hurricane, tornado, boiler explosion (if a condominium), or Mortgagee Neglect.
- The Property is secured and, if applicable, winterized.
- All insured damages including theft and vandalism, if any, are repaired per the scope of work indicated on the insurance documents.
- Interior and exterior debris is removed, with the Property's interior maintained in Broom-swept Condition, the lawn is maintained, and all vehicles and any other Personal Property are removed in accordance with state and local requirements.
- The Mortgagee has good and marketable title.

(B) Mortgagee Property Preservation and Protection Action

(1) Definitions

Property Preservation and Protection (P&P) actions are maintenance, security, and repair work required by HUD in order to ensure that the Property meets HUD's conveyance condition standards.

Mortgagee Neglect refers to the Mortgagee's failure to take action to preserve and protect the Property from the time it is determined (or should have been determined) to be vacant or abandoned, until the time it is conveyed to HUD.

(2) Standard

The Mortgagee must preserve and protect Properties that are the security for FHA-insured Mortgages that are in Default or presently in foreclosure. The Mortgagee is responsible for the management, scheduling, and execution of all activities and actions taken to preserve, secure, maintain and protect the Property, regardless of the amount that HUD may reimburse.

Mortgagees may use any qualified individual or business to perform P&P services on Properties that were secured by FHA-insured Mortgages; however, the Mortgagee remains fully responsible to HUD for its actions and the actions of its agents, individuals, and firms that performed such services.

The Mortgagee remains responsible for property damage or destruction to a vacant or abandoned Property resulting from Mortgagee Neglect. Such neglect includes, but is not limited to:

- failure to adequately and accurately verify the occupancy status of a Property;
- failure to complete timely and accurate property inspections;
- failure to promptly and appropriately secure and continue to preserve and protect all vacant Properties according to HUD standards; and
- failure to promptly notify the MCM of receipt of code violations and demolition notices and/or take appropriate action.

To ensure that the Mortgagee is not held liable for damage or delayed maintenance to the Property by the Borrower, their heirs, successors, or assigns, the Mortgagee must document and photograph any damage resulting from the Borrower that is identified during the First-Time Vacant Property Inspection.

(3) Photograph Requirements

The Mortgagee must use digital photography to document:

- the condition of the Property at the FTV Property Inspection and any damage identified; and
- the before and after conditions of the Property when performing Property P&P actions.

The Mortgagee must ensure a date stamp is printed within each photograph and is labeled accordingly with a description of the contents of the photograph.

(4) Required Documentation

The Mortgagee must:

- take before and after photographs and upload them into P260 for each claimed Property P&P expense;
- upload into P260 documentation and photographs showing any damage resulting from the Borrower that is identified using the FTV Property Inspection; and
- retain in the Servicing File and the Claim File:
  - all copies of paid invoices or receipts or other documentation supporting all Property P&P expenses claimed by the Mortgagee; and
  - a chronology of the Mortgagee's Property P&P actions.

If documentation is incomplete, inadequate, or not provided, HUD will not accept a Mortgagee's certification of property condition and may:

- reconvey the Property to the Mortgagee; or
- seek reimbursement from the Mortgagee for HUD's estimate of the cost of the repairs required to repair and restore the Property to conveyance condition.

HUD requires repayment of all or part of any claim reimbursement if it is determined that expenses claimed and paid were unnecessary or excessive, or that services claimed were not performed or were performed improperly or incompletely. The Mortgagee will not be reimbursed for the costs of protecting, operating, or preserving the Property, or removing debris from the Property after the time the Property should have been conveyed to HUD (24 CFR § 203.402(g)).

(5) Property Preservation Allowances

(a) Definition

The Maximum Property Preservation Allowance is a pre-approved reimbursement for the aggregate of all property preservation expenses that do not exceed the line item allowances listed in HUD's Appendix 7.0 – Property Preservation Allowances and Schedules.

(b) Standard

The Maximum Property Preservation Allowance is $5,000 per Property.

The following expenses are subject to the line item allowances in HUD's Appendix 7.0 – Property Preservation Allowances and Schedules but are not included in the $5,000 maximum cost limit per Property:

- debris removal;
- grass cutting;
- boarding;
- inspections;
- securing swimming pools;
- sump pumps;
- demolition;
- vacant property registration fees; and
- utilities.

(c) Requests for Exceeding Maximum Property Preservation Allowances

(i) Standard

The Mortgagee must request approval for expenses that exceed the Maximum Property Preservation Allowances from the MCM via P260 when:

- the aggregate of all Property P&P expenses (excluding those not included in the $5,000 maximum cost limit) exceeds the Maximum Property Preservation Allowance;
- a Property P&P cost will exceed the maximum line item allowance listed in Appendix 7.0 – Property Preservation Allowances and Schedules; or
- there is no specific line item allowance stated in the schedule for the expense.

When the Mortgagee submits an over-allowance request to exceed the Maximum Property Preservation Allowance, the Mortgagee must demonstrate their incurred P&P costs are at or near the Maximum Property Preservation Allowance.

(ii) Required Documentation

The Mortgagee must upload all supporting documentation into P260, including a detailed description of what actions will be or were taken, an itemized list of the repairs and materials that will be or were used, relevant room dimensions, receipts, photographs, and a chronological listing of all Property P&P expenses incurred before submittal of the over-allowable expense request. Requests must be submitted at least five business days prior to the conveyance due date.

The following chart details requirements for over-allowable requests.

If Claimed Property Preservation Expenses are:	And the Cost of a Single Line Item Expense is:	Need Over-allowable Approval?
$5,000* or less	Greater than Appendix 7.0 – Property Preservation Allowances and Schedules, A. Maximum Property Preservation Allowances	Yes

If Claimed Property Preservation Expenses are:	And the Cost of a Single Line Item Expense is:	Need Over-allowable Approval?
$5,000* or less	Equal to or less than Appendix 7.0 – Property Preservation Allowances and Schedules, A. Maximum Property Preservation Allowances	No
Greater than $5,000*	Greater than Appendix 7.0 – Property Preservation Allowances and Schedules, A. Maximum Property Preservation Allowances	Yes
Greater than $5,000*	Equal to or less than Appendix 7.0 – Property Preservation Allowances and Schedules, A. Maximum Property Preservation Allowances	Yes*

*The $5,000 maximum cost limit does not include the cost of the following expenses: debris removal, grass cutting, boarding, inspections, securing of swimming pools, sump pumps, demolition, vacant property registration fees, and utilities. These expenses do not require an over-allowable request when the cost is equal to or less than Appendix 7.0 – Property Preservation Allowances and Schedules, A. Maximum Property Preservation Allowances.

(d) Appeals of Over-Allowable Request Decisions

The Mortgagee may appeal an initial over-allowance decision via P260, for review by the MCM.

The Mortgagee may submit a second appeal via P260 to the MCM. The MCM reviews and approves or denies the appeal or determines if further review by HUD is needed. The decision on the second appeal is final and no further appeals are accepted.

(6) Property P&P Requirements of Authorities Having Jurisdiction

(a) Definition

An Authority Having Jurisdiction (AHJ) refers to a state or local government, HOA, or other organization responsible for enforcing the requirements of a property-related code or standard including state law and local ordinance.

(b) Standard

Mortgagees are not exempt by HUD policy from adhering to state and local laws relating to the P&P of Properties securing FHA-insured Mortgages.

The Mortgagee must review the AHJ requirements, including those relating to occupancy of the Structures, to determine applicability for repair or remediation prior to conveyance of the Property to HUD.

Where state or local law inhibits the Mortgagee performing HUD's required Property P&P actions, such as connecting or disconnecting utilities, the Mortgagee must submit in P260 to the MCM notice of the restriction on the Property P&P action and a proposal on how the Mortgagee will otherwise protect the Property from damage.

Where the AHJ requires additional or more extensive P&P actions than required by HUD for conveyance, the Mortgagee may submit an over-allowance request via P260. The Mortgagee must upload with its request all documentation supporting the proposed additional work requirements and expenses necessary for compliance.

(c) Required Documentation

Where state or local law inhibits the Mortgagee performing HUD's required Property P&P actions, the Mortgagee must note the restriction in the Servicing File and the Claim File and include a copy of the notice to the MCM, the MCM's approval or denial of the Mortgagee's proposal, and the applicable state, local, or AHJ requirement.

(7) Securing and Maintaining the Property

(a) Standard

The Mortgagee must secure the Property to prevent unauthorized entry and protect against weather-related damage, and must visibly display 24-hour emergency telephone contact information in a weather-tight location on a window or door or as otherwise required by an AHJ. Securing the Property should take place as soon as reasonably practicable, but no more than five Days following the determination that the Property is vacant and/or

abandoned post-foreclosure, or 15 business days following the determination that the Property is vacant and/or abandoned pre-foreclosure.

(i) Locksets

Where the Property has been conveyed to the Mortgagee after the foreclosure sale, the Mortgagee must:

- ensure that the lockset on the main entranceway remains secured; and
- rekey or replace all locksets on all secondary external entranceways and secure interior doorways, including attached garages and basements.

When rekeying, the Mortgagee must reset all locksets at the Property to a random identical key code and document the key code in the "Mortgagee's comments" of Part A of form HUD-27011. If locksets cannot be replaced or rekeyed or are antique or architectural locksets, the Mortgagee may utilize alternative methods to secure the door and prevent damage to the hardware or door.

(ii) Exterior Doors

The Mortgagee must secure all exterior doors. For exterior sliding glass doors, the Mortgagee must latch these doors and install or provide slider locks, anti-lift blocks, security bars, or another secondary security mechanism.

The Mortgagee must not brace, nail shut, or otherwise block or damage the door. If no other locking mechanism exists, the Mortgagee must board/secure access doors, pet doors, and other panels providing access to basements and crawl spaces, where permitted by state or local law.

(iii) Garage/Overhead Doors

The Mortgagee must secure the garage or overhead doors by:

- using existing locksets at garage/overhead doors if they can be rekeyed to the random identical key code for the Property;
- securing the garage/overhead doors with a padlock and hasp if no other locking mechanism exists;
- repairing or replacing inoperable garage doors; and
- disconnecting automatic garage door openers, if present, and leaving any remote keys or transmitters securely in the Property.

(iv) Outbuildings

The Mortgagee must secure sheds and outbuildings by:

- reusing and rekeying existing locksets at sheds and outbuildings to the dwelling key code, if possible;
- securing shed and outbuilding doors with a padlock and hasp if no other locking mechanism exists; and
- boarding/securing the outbuildings if no doors or other securing mechanism exists. The Mortgagee may convey with boarded/secured outbuildings and sheds without prior approval.

(v) Windows and Glazing

The Mortgagee must secure all windows by:

- employing or installing locking mechanisms on all windows;
- removing all broken glass debris from the interior and exterior of the Property; and
- replacing broken or cracked window glazing. Where the AHJ requires replacement of dual-pane, tempered, thermal-sealed or other specialized glazing in kind, the Mortgagee must obtain prior over-allowance approval from the MCM.

The Mortgagee must not brace, nail shut, or otherwise block or damage the windows.

*(vi)*Boarding/Securing of Property Openings

Resecuring due to Vandalism or Unauthorized Property Access

The Mortgagee must resecure and reglaze windows, doors, and other access openings when the Property has been vandalized or accessed without authorization.

Boarding/Securing Required by the AHJ

The Mortgagee may secure windows, doors, and other access openings by boarding/securing, if required by an AHJ, and may convey with such boarding/securing in place.

Boarding/Securing where Unable to Secure by Other Methods

The Mortgagee may request approval from the MCM to board/secure openings that cannot be protected by any other method or where an imminent safety hazard exists, and to convey with boarding in place.

All boarding/securing materials that are leased or rented for the Mortgagee's convenience must be removed prior to conveyance of the Property to HUD.

(b) Roof Assembly Repair

The Mortgagee must ensure that all roof assemblies, including those securing attached garages, porches and patios, detached garages and any secondary structures associated with the origination collateral, and related weatherproofing are free of active leaks or other sources of water intrusion.

When a roof assembly leak is discovered, the Mortgagee must immediately repair the roofing system and mitigate further damage. The Mortgagee may provide such temporary repairs as tarping or patching until the permanent repair or replacement can be installed. The Mortgagee must ensure that permanent repairs or replacements, with materials matching or similar in color and material type, have been completed prior to conveyance to HUD. The Mortgagee is not required to obtain prior HUD approval for temporary repairs for which costs do not exceed the temporary roof repair line item allowance amount.

(c) Pools, Hot Tubs, and Spas

(i) In-Ground Pools, Hot Tubs, and Spas

Mortgagees must secure all in-ground swimming pools, hot tubs, and spas as required by local laws, codes, and ordinances. The Mortgagee must:

- secure the pool, hot tub, and/or spa with a removable safety cover anchored to the pool deck or, if a cover cannot be anchored to the pool deck, board or otherwise secure the pool, hot tub, and/or spa; and
- secure and repair any fences around the pool, hot tub, and/or spa to restrict access.

The Mortgagee must not drain operational in-ground pools. If the pool is empty, it is not necessary to refill the pool. The Mortgagee must drain hot tubs or spas located indoors or outdoors.

The Mortgagee must perform monthly maintenance and chemical treatments for operational pools. Where the Mortgagee must repair or drain the pool to mitigate damage or safety hazards, the Mortgagee must submit an over-allowance request.

(ii) Above-Ground Pools

Mortgagees must secure all above-ground swimming pools as required by local laws, codes, and ordinances. In addition to local requirements, the Mortgagee must:

- drain the pool;
- secure the pool with a removable cover; and

- secure and repair any fences around the pool in order to restrict access.

Where the above-ground pool is in poor condition or cannot be secured, the Mortgagee must:

- remove the above-ground pool and any built-up decking; and
- remediate any resulting depression in the ground that may constitute a hazard.

(iii) Ponds or Gardens

The Mortgagee must drain, if feasible, or cover any small backyard ponds, water gardens, or other water features.

(d) Drainage Systems and Basements

The Mortgagee must reattach, replace, repair and clear debris from existing roof drainage and foundation drainage systems. If no drainage system exists at the time of the FTV Property Inspection, the Mortgagee is not required to provide or install new systems.

The Mortgagee must ensure that downspouts provide positive drainage away from the Structure and that gutters are cleared and do not prevent drainage.

If the FTV Property Inspection reveals basement flooding, the Mortgagee must drain or pump the basement, identify the water sources, and make other such repairs to prevent equipment damage, mold and organic growth, and structural and material damage.

(e) Mold, Fungus, Discoloration, and Related Moisture Damage and Organic Growth

(i) Standard

When mold or related moisture damage is found in the Property during the FTV Property Inspection, the Mortgagee must mitigate the source of the moisture to prevent further damage. HUD will not reimburse costs related to mold or organic growth abatement if it determines that such mold or organic growth is due to Mortgagee Neglect. The Mortgagee must thoroughly document the condition and scope of the moisture damage at the FTV Property Inspection.

(ii) Over-Allowance Request

The Mortgagee must submit an over-allowance request to the MCM for approval in the following circumstances:

- initial efforts to eliminate the mold or organic growth and to remove moisture are ineffective and additional treatments are needed to remove moisture and prevent mold and moisture damage; or
- the mold or organic growth poses a potential health and safety hazard.

Where the mold or organic growth poses a potential health or safety hazard, the Mortgagee must provide with its request:

- a written report and/or any lab reports or other testing data supporting the health or safety hazard determination;
- photographs of the discoloration;
- dimensions of the affected areas;
- a description of the initial mitigation efforts, including the basis for the selection of the method used;
- the proposed scope of work for the abatement; and
- at least two bids from licensed or certified mold remediation or hazardous materials contractors.

(f) Debris Removal, Cleaning, and Minor Repair

The Mortgagee must ensure that all interior and exterior debris is removed from the Property, including attics, basements, barns, storage spaces, and outbuildings, and that the Property is in Broom-swept Condition. The Mortgagee may request reimbursement for the storage or disposition of any Personal Property removed from the Property when such storage and disposition is required by the AHJ.

(i) Equipment, Fixtures, and Appliances

The Mortgagee must ensure that all equipment, fixtures, and appliances present at the FTV Property Inspection and associated with origination collateral remain in the Property, unless approved by HUD for disposal.

The Mortgagee must empty and wipe clean the interior of all refrigerators and freezers. The Mortgagee must secure exterior clothes dryer vents and similar openings to prevent entry of pests. The Mortgagee must ensure that bathtubs, sinks, and toilets are cleaned and emptied.

(ii) Graffiti

The Mortgagee must remove or cover with similar or matching color all exterior and interior graffiti on all Structures and fencing.

*(iii)*Exterior Debris

The Mortgagee must ensure that the Property is free of external debris by removing all vehicles, boats, trailers, any unsafe or hazardous structures, and other Personal Property, as allowed and in accordance with state and local law requirements.

The Mortgagee may allow affixed Personal Property in sound and usable condition to remain in place that may add value to the Property, such as fountains, children's play structures, sheds, ramadas, pergolas, or gazebos.

*(iv)*Fences

The Mortgagee must ensure that fences and gates present at the FTV Property Inspection are maintained in secure and upright condition, with no missing panels or sections.

(v) Pests

The Mortgagee must ensure that the Property is free of animals, vermin, and insect infestation and that any dead animals, vermin, and insects are removed from the Property.

When the Mortgagee determines the Property is infested with pests and that the infestation and removal may constitute a health or safety hazard, the Mortgagee may obtain professional pest control services; otherwise, the Mortgagee may employ over-the-counter pest control products.

When evidence of live wood boring insects is discovered, the Mortgagee must request an over-allowance for an inspection by a professional pest control service, and provide the report and treatment recommendations for over-allowance consideration to abate.

*(vi)*Floors and Walkways

The Mortgagee must ensure that interior walking surfaces are safe or otherwise patched, replaced, or repaired to be free of hazards as follows:

- any floor finishes, including carpeting, sheet vinyl, wood, laminate, ceramic or vinyl tiles, and all tack strips and fittings that are damaged, loose, or otherwise hazardous, must be removed. The Mortgagee is not required to replace these finishes once removed; and
- holes or openings in interior walking surfaces must be patched, replaced, or repaired. Weak or spongy flooring must be inspected and, if needed, repaired to address hazardous conditions with an approved over-allowance.

The Mortgagee must repair damaged or missing handrails or stair treads on elevated exterior porches, patios, decks, and balconies where the distance from the finished floor to the ground surface is greater than 18 inches. If repair is not feasible, the Mortgagee must provide temporary rails, fencing, or other means to prevent or mitigate falls.

(vii) Regulated Hazardous Materials

The Mortgagee must handle and dispose of hazardous materials regulated by federal, state, or local law in accordance with those laws.

Where removal of hazardous materials exceeds HUD's reimbursable amounts for debris removal, the Mortgagee must submit an over-allowance request prior to incurring those costs. The Mortgagee must include with the request:

- the relevant code or regulation describing the specific handling or disposal requirements;
- if testing is required to confirm the presence of hazardous materials, detailed reports or test results, with information on the location of the materials, the scope of the work, and recommended methods for removal, abatement or remediation of the materials; and
- at least two bids from licensed or certified hazardous materials contractors.

(8) Yard Maintenance and Snow Removal

(a) Definitions

Grass Cuts are the Property P&P actions of mowing, weeding, edge trimming, sweeping of all paved areas, and removing all lawn clippings, related cuttings, and debris.

(b) Standard

The Mortgagee is responsible for maintaining lawn and yard areas and trees, shrubs, and vines in compliance with AHJ requirements by performing Grass Cuts.

The Mortgagee must ensure that yards are maintained as follows:

- Grass must be cut to a maximum of two inches in height.
- Grass and weeds must be cut to the edge of the property line, and trimmed around foundations, bushes, trees, and planting beds.
- Grass, trees, tree limbs, shrubs, and other vegetation that are obstructing the public right of way must be trimmed or removed.

- Desert, xeriscape, or rock scape landscaping maintenance must be maintained through removal or spraying of weeds, grass trimming or cutting, and the removal of related cuttings and incidental debris.
- Dead trees or tree limbs that pose a safety hazard or may potentially damage the Property must be removed or trimmed.

(c) Grass Cuts

(i) Standard

The Mortgagee must complete initial and ongoing Grass Cuts and desert landscaping according to the timelines set in the Grass Cut Schedule.

Should a Property require earlier or more frequent Grass Cuts or desert landscaping maintenance due to specific micro-climate conditions or other property requirements, the Mortgagee must perform such cuts or landscaping.

If additional or more frequent Grass Cuts are required as a result of code violations or neighbor complaints, the Mortgagee must submit to the MCM a request to exceed the allowable amount and documentation supporting the amended timeline.

(ii) Required Documentation

Should a Property require earlier or more frequent Grass Cuts or desert landscaping maintenance due to specific micro-climate conditions or other property requirements, or if additional or more frequent Grass Cuts are required as a result of code violations or neighbor complaints, the Mortgagee must include in the Servicing File and the Claim File documentation supporting the Mortgagee's amended timeline.

(d) Shrubs

The Mortgagee must trim shrubs and remove cuttings once in a growing season, between April 1 and October 31.

(e) Snow Removal

The Mortgagee must ensure that the Property is safe and accessible throughout the winter season by:

- removing snow from the entire entryway, public and other front yard walkways, porch, and driveway, following a minimum three-inch accumulation; and
- complying with local codes and ordinances governing the removal of snow and ice.

(f) HOA Yard Maintenance

If an HOA or Condominium Association provides for the yard maintenance and snow removal actions, the Mortgagee must not order duplicate yard maintenance and snow removal actions.

(9) Winterization Requirements

(a) Time Frame for Winterization

The Mortgagee must winterize the Property once, according to the Winterization Schedule. All Properties located in the state of Alaska must remain winterized at all times.

Where earlier or extended winterization is required due to specific micro-climate conditions or other property requirements, the Mortgagee must perform such winterization and include in the Servicing File and the Claim File documentation supporting the Mortgagee's amended winterization timeline.

Where the initial winterization is no longer effective, the Mortgagee must re-winterize the Property and include in the Servicing File and the Claim File documentation demonstrating the need to re-winterize.

(b) Utilities

(i) Standard

The Mortgagee must turn all utilities off unless:

- prohibited by state or local law;
- required to remain on per HOA or Condominium Association requirements;
- the Property is an attached unit or a dwelling with shared systems such as a row house, townhouse or Condominium;
- required to remain on to protect the Property;
- required to operate equipment such as sump pumps, swimming pools, wells, dehumidifiers, or other equipment or systems required to remain in operation; or
- where the Mortgagee determines that utility disconnection fees and charges make it cost effective to maintain utility service rather than disconnect the service.

The Mortgagee must ensure that active piping and exposed electrical wiring is capped, valved, or otherwise terminated.

If utilities remain on, the Mortgagee must note in the Servicing File and the Claim File the reasons for maintaining utility service and, if

applicable, include a copy of the state or local requirement for maintaining utility service.

(ii) Sump Pumps

The Mortgagee must ensure that all installed or required sump pumps are in place and operational at all times, where state or local law permits electricity to remain on. The Mortgagee must repair or replace any non-functioning or missing equipment.

*(iii)*Utility Accounts

The Mortgagee must retain all utility accounts in its name until conveyance of the Property to HUD.

In states or jurisdictions where utilities should remain on, if there is any reason to believe that a Borrower may abandon a Property, the Mortgagee must contact the utility company to request notification of non-payment of utilities so that utilities can be transferred to the Mortgagee's name if the Borrower vacates the Property.

*(iv)*Propane and Oil Systems

In jurisdictions requiring heat to remain on, the Mortgagee must put a "KEEP FULL" contract on with a local supplier when the Property has a propane or oil heating system. Otherwise, the Mortgagee must ensure that active piping is capped, valved, or otherwise terminated and all fuel tanks are emptied.

(v) Domestic Water

The Mortgagee must not cut water lines or remove water meters, unless required by the AHJ.

*(vi)*Wells

If the water supply is a private well, the Mortgagee must:

- turn off the well at the breaker panel;
- secure the breaker;
- disconnect and cap, valve, or otherwise terminate the water supply line between the Property and pressure tank;
- install a hose bib on the pressure tank side of the breaker, tagging the hose bib "For Water Testing;"
- drain all pressure tanks;
- drain pump housing if the pump is surface-mounted;

- disconnect the check valve and drain all pump, suction, and discharge pipes, if the pump is submersible; and
- winterize all fixtures.

(vii) Water, Plumbing, and Heating Systems

The Mortgagee must:

- shut off or disconnect the domestic water supply at the curb;
- drain all plumbing and heating systems; and
- ensure that all toilets are cleaned and emptied.

Where a toilet or other plumbing fixture has been compromised by an unauthorized entry or wastewater backflow, the Mortgagee must complete re-winterization and cleaning.

(c) Winterization of Swimming Pools

During the winterization period, the Mortgagee must drain all lines and filters and secure and maintain operational swimming pools to prevent damage.

(d) Additional Winterization Requirements for Properties Located in Alaska

In addition to the winterization requirements described above, the Mortgagee must ensure that for all Properties located in the state of Alaska:

- the heat remains on, with the thermostat set at 55 degrees Fahrenheit; and
- all utilities remain connected and in working order, where permitted by state or local law.

(e) Responsibility for Damage Due to Freezing

The Mortgagee is responsible for any damage to plumbing and heating systems, sump pumps, and wells caused by untimely, inadequate, or improper maintenance or winterization.

HUD considers any damage caused by freezing and not documented at the FTV Property Inspection to be the responsibility of the Mortgagee and not reimbursable by HUD.

(10) Demolition

If the Mortgagee proposes to demolish or remove a primary dwelling structure, a significant section of the Structure, or a secondary structure that is associated with the origination collateral, the Mortgagee must request approval from the MCM to demolish and convey as a vacant lot. The Mortgagee is not required to request HUD approval to demolish damaged or unusable sheds and outbuildings that were

not included in the Property Value at origination. For requests to demolish a primary dwelling structure, the Mortgagee must submit to the MCM:

- a BPO analysis estimating the value of the Property "As-Is" and as a vacant lot;
- proposed demolition costs; and
- a detailed chronology of the servicing and Property P&P actions related to the Property, including all efforts to address any damages or violations.

Where a local jurisdiction mandates demolition of a Property after foreclosure, the Mortgagee must provide the following to the MCM immediately upon discovery of the demolition order:

- copies of all notices pertaining to demolition orders and hearings; and
- inspection reports and photographic documentation establishing the condition of the Property when the Mortgagee first entered or took possession of the Property.

The MCM advises the Mortgagee as to whether to proceed with the demolition or to postpone the demolition until after conveyance to HUD.

(a) Requests Less than Five Business Days before Conveyance

The MCM rejects any requests received less than five business days before the end of the time frame to convey to HUD, unless the Mortgagee can demonstrate that it received the demolition notification with insufficient time to make a request by this deadline.

(b) Cost of Demolition

The cost of demolition is not included in the maximum cost limit per Property.

(c) Damage due to Mortgagee Neglect

If HUD determines that the damage to the Property is due to Mortgagee Neglect, the Mortgagee is responsible for the cost to demolish the Property. The MCM determines the acceptance of the vacant lot.

(C) Conveyance of Damaged Properties

(1) Conveyance without Prior HUD Approval

The Mortgagee may convey Properties without prior written approval when:

- the Property is in conveyance condition, with no Surchargeable Damage; and
- the aggregate of all allowable Property P&P expenses does not exceed the Maximum Property Preservation Allowance and claimed P&P costs do not exceed the Property Preservation Allowances line item.

(2) Conveyance Requiring HUD Approval

(a) Request to HUD

The Mortgagee must request and obtain approval from the MCM before conveyance under any of the following circumstances:

- conveyance of a Property damaged while under the control of the Mortgagee or as a result of Mortgagee Neglect;
- conveyance of a Property with unrepaired insurable damage and insurance repair proceeds;
- conveyance of a Property "As-Is" with unfinished renovations, violations, liens, or other outstanding state law and local code compliance issues; and
- demolition and/or conveyance of a vacant lot.

(b) Required Documentation for Request

In its request to convey the damaged Property, the Mortgagee must include the following documentation:

- the date of vacancy;
- evidence validating the property condition at vacancy;
- supporting documentation including inspection reports, photographs, repair bids, and receipts;
- a chronology of actions performed by the Mortgagee to preserve and protect the Property;
- for damaged Properties with approval to convey with insurance proceeds, all related damage reimbursement funding, including insurance deductibles, recoverables, and depreciation; and
- for Properties with unfinished renovations, violations, liens, or other outstanding state and local law compliance issues:
  - the BPO showing the value of the Property "As-Is" and the value with repairs completed;
  - copies of violations, liens, or relevant state or local law;
  - hazard insurance claim information, including hazard insurance denials;
  - a detailed description of the reason(s) that the Mortgagee cannot feasibly repair or secure the Property, proposed actions or actions taken, and a detailed repair estimate of the damages; and
  - a detailed estimate of cost to repair the Property.

If no documentation or inadequate documentation is received from the Mortgagee, HUD attributes all damage to the Mortgagee.

(3) Mortgagee Failure to Obtain Required HUD Approval

If the Mortgagee fails to obtain HUD approval when required, prior to conveying a damaged Property, HUD may:

- reconvey the Property;
- require a reduction to the claim for insurance benefits:
  - the hazard insurance recovery or HUD's estimate of the cost of repairing damage; or
  - the cost to repair and restore the Property to required conveyance condition; or
- take other such action as permitted by regulation.

(4) Appeal of Surchargeable Damage Decision

The Mortgagee may appeal a Surchargeable Damage request decision via P260. The Mortgagee may submit an additional appeal to HUD via P260. The second appeal decision is final and no further appeals are accepted.

(D) Hazard Insurance Recovery

The Mortgagee must take all appropriate action to recoup all available hazard insurance proceeds, including recoverable depreciation.

(1) Extension of Time to Convey Title to HUD

Where conveyance of title to HUD jeopardizes the Mortgagee's ability to receive hazard insurance proceeds, the Mortgagee must request an extension of time from the MCM, providing a specific reason why the extension is warranted.

(2) Reimbursement for Recoverable Depreciation

The Mortgagee must seek reimbursement for any recoverable depreciation after repairs have been completed; all damages must be repaired prior to conveyance.

(3) Recovery for Vandalism or Theft

(a) Standard

If there is evidence of vandalism or theft resulting in damage or missing built-in appliances, equipment, or fixtures, the Mortgagee must file a claim to obtain all available insurance proceeds for damages to the Property.

Unless the Mortgagee obtains HUD approval to convey with unrepaired insurable damage and insurance repair proceeds, the Mortgagee must use these insurance proceeds or corporate funds to fully repair or replace the damaged structures, appliances, equipment, or fixtures.

(b) Required Documentation

The Mortgagee must document in the Servicing File and the Claim File all relevant claim correspondence with the insurance company.

(E) Requests for Pre-Conveyance Inspection

(1) Definition

A Pre-Conveyance Inspection is an inspection performed by HUD, at the Mortgagee's request, before conveyance to determine if a Property meets HUD's conveyance standards.

(2) Standard

The Mortgagee may request a Pre-Conveyance Inspection of a Property that has sustained damage due to Borrower neglect, Surchargeable Damage, or Mortgagee Neglect.

(3) Submission of Pre-Conveyance Inspection Request

The Mortgagee may submit a request for a Pre-Conveyance Inspection to the MCM before the deed to HUD is recorded or sent for recording, and before the submittal of a claim.

(4) HUD Review of Request

The MCM reviews the request to determine whether a Pre-Conveyance Inspection is needed and may consider the following criteria in its decision:

- the Property has completed over-allowance repairs exceeding $10,000;
- the Property is affected by re-occurring vandalism and the Mortgagee is requesting approval to convey the Property "As-Is" to HUD;
- the Property has code violations and the Mortgagee is requesting approval to convey the Property "As-Is" to HUD;
- the Property is located in a PDMDA and has completed repairs exceeding $10,000;
- the Property has an insurable claim with completed repairs exceeding $5,000;
- the Property has unrepaired Borrower neglect damage affecting mechanical, electrical, plumbing, or structural system integrity; and
- the Property has uninsurable and unfinished renovations, and the Mortgagee is requesting approval to convey the Property "As-Is" to HUD.

(5) Pre-Conveyance Inspection

If the request for the Pre-Conveyance Inspection is approved, the MCM orders the Pre-Conveyance Inspection from HUD's Field Service Manager (FSM), who

contacts the Mortgagee to coordinate the inspection. Upon completion of the inspection, the FSM provides an inspection report indicating:

- whether the Property is in conveyance condition; or
- further actions the Mortgagee must take to place the Property into Acceptable Conveyance Condition.

The Mortgagee must ensure that all required actions identified on the Pre-Conveyance Inspection report are completed before conveyance to HUD.

iv. Condition of Title

The Mortgagee must convey good and marketable title to the Secretary.

HUD regulations list certain specific and common exceptions to title in 24 CFR §§ 203.385–203.391 to which HUD will not object. HUD may waive additional objections, based on local practice and the general marketability of title clouded by those objections, or if the Mortgagee is willing to accept a reduced claim for mortgage insurance benefits.

(A) Liens

HUD will not accept title subject to liens, other than the following:

- IRS liens;
- Section 235 liens; and
- a PACE obligation.

(1) IRS Liens

HUD will not object to title where there is a lien in favor of the IRS, regardless of its position, if the following conditions are met:

- the IRS has been notified of the foreclosure;
- the IRS lien was established after the date of the mortgage lien; and
- the Mortgagee bid at least the full amount of the indebtedness plus the cost of foreclosure.

(2) Section 235 Liens

HUD will accept title subject to a junior lien securing the repayment of Section 235 assistance payments.

(3) Property Assessed Clean Energy Obligation

HUD will allow a notice of lien recorded in the land records securing repayment of a PACE obligation that may only become subject to an enforceable claim (i.e., a lien) for delinquent regularly scheduled PACE special assessment payments and otherwise complies with the eligibility and acceptability criteria for Properties encumbered with a PACE obligation provided in PACE Obligation Review.

(B) Payment of Taxes

(1) Taxes at Conveyance

(a) Standard

Prior to the conveyance of a Property to HUD, the Mortgagee must satisfy all taxes and special assessments, including any PACE assessments:

- due and payable prior to or on the date of conveyance; or
- due and payable within 30 Days after the date of conveyance.

(b) Required Documentation

The Mortgagee must:

- certify that all available tax and assessment bills due at conveyance and within 30 Days of conveyance are paid as of the date of conveyance;
- document payment and identify the most recent period for which taxes were paid in Item 32, "Schedule of Tax Information," of form HUD-27011, Part A; and
- upload to P260 documentation validating that on-time payment was made, such as a paid receipt, a copy of the Mortgagee's tax payment history screen, or a report, or screenshot of a report, from a tax monitoring service.

The Mortgagee must also retain invoices, paid bill receipts, or other proof of payment in the Servicing File and the Claim File.

(2) Tax Penalties

When late fees and/or interest penalties are incurred as a result of the Mortgagee's failure to pay taxes prior to conveyance, HUD will not reimburse the Mortgagee for late fees and/or interest penalties paid by the Mortgagee, and the Mortgagee must reimburse HUD for any late fees and/or interest penalties paid by HUD.

(3) Mortgagee Failure to Pay Taxes, Late Fees, and/or Interest Penalties

Where taxes, late fees and/or interest penalties are owed to the taxing authority when a Property is conveyed to HUD, HUD may elect to:

- Reconvey the Property back to the Mortgagee; or
- refuse to accept the conveyance.

(C) Payment of HOA/Condominium Fees

(1) Definitions

A Homeowners' Association (HOA)/Condominium Assessment is a periodic payment required of property owners by an HOA or Condominium Association.

HOA/Condominium Fees are HOA/Condominium Assessments plus interest, Late Charges, collection/attorney fees, and other penalties.

(2) Standard

Prior to the conveyance of a Property to HUD, the Mortgagee must pay HOA/Condominium Fees that are due and that become due within 30 Days of the date of conveyance. While the payment of HOA/Condominium Fees is the Borrower's responsibility, Mortgagees must ensure that Properties conveyed to HUD have clear title.

The Mortgagee must take the following actions:

- provide notice of foreclosure proceedings to HOA/condominium management companies;
- unless prohibited by state law, ensure that outstanding HOA/Condominium Fees are included as part of the foreclosure proceedings in the event the HOA/condominium management company does not pursue these amounts in foreclosure;
- negotiate the amount required to obtain a release of outstanding HOA/Condominium Fees;
- obtain a release of outstanding HOA/Condominium Fees;
- ensure that the HOA/condominium lien, if any, is removed from the title to the Property prior to conveying the Property to HUD; and
- pay the HOA/Condominium Assessment required under applicable law before conveyance to HUD, where HOA/Condominium Fees do not survive foreclosure or result in a lien on the Property.

(3) Required Documentation

The Mortgagee must document the payment of all final bills and pre- and post-foreclosure liens for HOA/Condominium Fees in the "Mortgagee's Comments" section of form HUD-27011, Part A.

Within 15 Days of conveyance, the Mortgagee must upload to P260 the paid HOA/condominium invoice and any other documentation necessary to verify that the Mortgagee made such payments prior to conveyance, and, if applicable, document any common area requirements associated with gaining access to the Property.

(4) Lack of Information on HOA or Condominium Association Assessments and Fees

(a) Standard

On a case-by-case-basis, at its sole discretion, HUD may accept conveyances where the Mortgagee has requested and has been unable to obtain sufficient information on HOA/Condominium Fees to resolve them prior to conveyance.

(b) Required Documentation

The Mortgagee must request a variance through HUD's MCM by submitting:

- a certification stating that the Mortgagee has exhausted all methods of obtaining and paying the outstanding HOA/Condominium Assessments; and
- evidence documenting its attempts to obtain and pay these assessments and fees as follows:
  - at least three phone calls;
  - certified mail notices to HOA/condominium contacts from the Mortgagee's attorneys; and
  - documentation validating the pursuit of available legal remedies and evidencing the resolution or final decisions resulting from arbitration or court proceedings.

(D) Payment of Water and Sewer Bills and Other Assessments

(1) Standard

The Mortgagee must retain utilities, including electricity, gas, home heating oil, water, and sewer, in its name until conveyance of the Property to HUD.

Prior to the conveyance of a Property to HUD, Mortgagees must research, obtain, and pay all available utility bills that may become a lien attached to a Property after foreclosure as follows:

- In states where utilities are not required to remain on to protect the Property, Mortgagees must obtain and pay a final bill up to the date of conveyance; and
- In states where utilities are required to remain on, Mortgagees must pay:
  - all available bills that are due prior to conveyance; and
  - within 60 Days after the date of conveyance, the final bill calculated to the Day on which utilities are transferred to HUD.

(2) Required Documentation

For Properties in states where utilities are not required to remain on to protect the Property, no later than 60 Days after conveyance, the Mortgagee must upload to

P260 the paid invoice and any other documentation necessary to verify that the Mortgagee made such payments.

For Properties in states where utilities are required to remain on, the Mortgagee must upload to P260 the paid invoices and any other documentation necessary to verify that the Mortgagee made the payment for the final bill.

(3) Failure to Pay Utility Bills

If the Mortgagee fails to pay utility bills, HUD, at its sole discretion, may:

- issue a Notice of Noncompliance and demand payment from the Mortgagee in an amount that sufficiently satisfies any liens or encumbrances, including penalties and interest, which prevent or delay a sale; or
- Reconvey the Property to the Mortgagee.

v. Notice of Property Transfer

The Mortgagee must notify the Commissioner on the date the deed to the Secretary is filed for recording by:

- filing form HUD-27011 in FHAC; and
- submitting a copy to HUD's MCM.

The Mortgagee must prepare conveyance deeds to the Secretary of HUD. Deeds must be recorded in the name of the "Secretary of Housing and Urban Development, their successors and assigns," hereinafter referred to as "Grantee," whose address is HUD's MCM.

vi. Submission of Title Evidence for Conveyance to HUD

(A) Submission of Title Evidence to the Mortgagee Compliance Manager

(1) Standard

The Mortgagee must submit to HUD's MCM via P260 the following documentation reflecting ownership vested in the name of the Secretary no more than 45 Days after the date the deed is filed for record:

- original title evidence;
- a copy of form HUD-27011, Part A;
- a copy of the mortgage instrument, containing a complete legal description of the Property; and
- a copy of the recorded deed.

(2) Extension to the Deadline to Submit Title Evidence

To request an extension to the deadline to submit title evidence, the Mortgagee must:

- submit a request for an extension via P260 before the expiration of the 45-Day time frame; and
- provide documentation supporting the reason for the request.

(B) Title Evidence

The Mortgagee must provide one of the following types of title evidence of recorded title to the Secretary. The Mortgagee may also submit similar evidence of title that conforms to the standards of a supervising branch of the federal, state, or territory government.

(1) Fee or Owner's Title Policy

The Mortgagee may submit:

- a fee or owner's policy of title insurance in the name of the Secretary, inuring the benefit of the Secretary's successors in office;
- a guaranty or guarantee of title; or
- a certificate of title, issued by a title company, duly authorized by law and qualified by experience to issue such instruments.

When the Mortgagee submits a title policy as evidence of good and marketable title, the amount of title insurance coverage must be equal to the unpaid principal balance of the Mortgage.

The Mortgagee must upload to P260 and include in its original title evidence package a copy of the appraisal used to determine the CAFMV when:

- the Mortgagee is the successful bidder for an amount equal to the CAFMV for sales conducted under CWCOT procedures; and
- the Mortgagee elects to convey the Property's title to HUD.

(2) Mortgagee Policy of Title Insurance

The Mortgagee may submit a Mortgagee's policy of title insurance supplemented by an abstract and an attorney's certificate of title covering the period after the Closing Date. The Mortgagee must ensure that, under the terms of the policy, the liability of the title company will continue in favor of the Secretary after title is conveyed to them.

(3) Abstract and Legal Opinion

The Mortgagee may submit:

- an abstract of title, prepared by an abstract company or individual engaged in the business of preparing abstracts of title; and
- a legal opinion as to the quality of the title. The Mortgagee must ensure that this legal opinion is prepared and signed by an attorney experienced in examination of titles.

(4) A Torrens or Similar Title Certificate

The Mortgagee may submit a Torrens or similar title certificate.

(C) Title Evidence for Manufactured Housing

(1) Standard

For Manufactured Housing, the Mortgagee must include title evidence that:

- the Manufactured Home is attached to the land; and
- the Manufactured Home is classified and taxed as real estate.

The Mortgagee must ensure that all state or local requirements for proper purging of the title have been met.

(2) Required Documentation

The Mortgagee must:

- upload the title evidence into P260 on or before the filing date of form HUD-27011, Part A; and
- certify in the "Mortgagee's Comments" section of form HUD-27011, Part A, that the required additional title work has been completed and uploaded.

(D) HUD Review of Title Evidence

The MCM will review the title evidence and notify the Mortgagee of its approval or denial or if additional information is needed.

(E) HUD Requests for Additional Title Information

If HUD requests additional title information, the Mortgagee must provide this information within 10 Days of the request to avoid rejection of the title evidence.

If title evidence is later approved after the submission of additional information, HUD will provide the Mortgagee with a title approval letter showing the "Date Title Received" as the date the Mortgagee resubmitted the complete title evidence.

vii. Responsibility for Property at Conveyance

The Mortgagee is responsible for the Property until all HUD regulatory requirements leading to conveyance have been complied with, including:

- filing to record the deed to the Secretary of HUD; and
- filing form HUD-27011 in FHAC for claim processing and payment.

The Mortgagee remains responsible for the Property and any loss or damage thereto should the claim be suspended due to the need for review or correction of a hard edit error, notwithstanding the filing of the deed to the Secretary.

(A) Damage at Inspection at or after Conveyance

HUD will presume that any damage discovered during HUD's first inspection of the Property after conveyance occurred while the Mortgagee had possession, unless the Mortgagee is able to provide evidence to the contrary.

(B) Expenses Incurred at or after Conveyance

Without the express written approval of the MCM, the Mortgagee must not incur expenses for P&P of the Property or for eviction of the occupant on or after the date the deed is filed for record.

HUD will not reimburse P&P or property-related expenses incurred after the deed has been recorded in HUD's name, other than payment of certain utility bills or HOA payments.

(C) Cancellation of Hazard Insurance

The Mortgagee must request Hazard Insurance be canceled as of the date the deed is filed for record. The Mortgagee may calculate the amount of the return premium due on a short-rate basis.

viii. Extension of Time for Conveyance

(A) Standard

To request an extension to the deadline to convey the Property to HUD, the Mortgagee must:

- submit a request for an extension via P260 before the expiration of the time frame; and
- provide documentation supporting the reason for the request.

(B) Required Documentation

The Mortgagee must maintain a copy of the written response from the HUD representative in the Mortgagee's Servicing File and the Claim File.

(C) Appeal of Extension Decision

The Mortgagee may appeal a decision on a request for an extension via P260 for review by the MCM. The Mortgagee may submit a second appeal via P260. The MCM will review and approve or deny the appeal or determine if further review by

HUD is needed. The decision on the second appeal is final and no further appeals will be accepted.

ix. HUD Acceptance of Conveyance

HUD considers a Property conveyed by the Mortgagee to HUD when:

- the Mortgagee has deeded the Property to HUD; and
- HUD accepts conveyance of the Property, as evidenced by the payment of Part A of the claim from HUD to the Mortgagee; or
- For suspended claims, notwithstanding the filing of the deed to the Secretary for record, the Mortgagee remains responsible for the Property, and any loss or damage thereto, and such responsibility is retained by the Mortgagee until HUD regulations have been fully complied with.

x. Reconveyance

(A) Definition

A Reconveyance is a conveyance of a Property from HUD back to the Mortgagee due to the Mortgagee's failure to comply with HUD's conveyance requirements.

(B) Standard

If a Mortgagee fails to fully comply with the terms of the insurance contract, including HUD's conveyance requirements, HUD may:

- Reconvey title to the Mortgagee; and
  - cancel the Mortgagee's claim for insurance benefits; and
  - request reimbursement for expenses incurred for acquisition, holding and Reconveyance, less any income received from the Property, from the date the deed to HUD was filed for record to the date of Reconveyance; or
- enter into a Reconveyance Bypass Agreement with the Mortgagee.

The Mortgagee may re-apply for insurance benefits.

s. Non-conveyance Foreclosure (03/31/2022)

The Mortgagee may elect not to convey the Property to HUD after foreclosure and to terminate the contract of mortgage insurance. The Property may be acquired by the Mortgagee or by a third party at a foreclosure sale, or may be redeemed after foreclosure and no insurance claim will be made to HUD.

For non-conveyance foreclosures, the Mortgagee must use form HUD-27050-A and select Non-Conveyance Foreclosure (Term Type 13) in FHAC to notify HUD.

t. Deficiency Judgments (03/31/2022)

Where the mortgaged Property is sold at the foreclosure sale for less than the unpaid balance of the debt, HUD may seek a deficiency Judgment, unless prohibited by the terms of the Mortgage.

i. HUD-Required Deficiency Judgments

(A) Mortgages Insured on or after March 28, 1988

For Mortgages insured pursuant to *Firm Commitments* issued on or after March 28, 1988, or pursuant to direct endorsement processing when the Mortgagee's underwriter signed the credit worksheet on or after March 28, 1988, HUD may require the Mortgagee to pursue a deficiency Judgment. Where HUD requires the Mortgagee to pursue a deficiency Judgment, HUD will provide the Mortgagee with instructions and its estimate of the Fair Market Value (FMV) of the Property, less adjustments. Upon receipt of such notification, the Mortgagee must:

- tender a bid at the foreclosure sale in that amount; and
- attempt, in accordance with state law, to obtain a deficiency Judgment.

(B) Mortgages Insured before March 28, 1988

For Mortgages insured pursuant to *Firm Commitments* issued before March 28, 1988, or pursuant to direct endorsement processing when the Mortgagee's underwriter signed the credit worksheet before March 28, 1988, HUD may request the Mortgagee to pursue a deficiency Judgment.

ii. Procedures for Claims Without Conveyance of Title

Unless specifically requested by FHA, the Mortgagee is not required by FHA to pursue any deficiency Judgments in connection with CWCOT procedures.

iii. Assignment of Judgments

(A) When Filing a Claim for Insurance Benefits

The Mortgagee must assign deficiency Judgments to HUD and transmit the Judgment to HUD no later than 30 Days after the Judgment was obtained if the Mortgagee filed a claim for mortgage insurance benefits.

(B) When Not Filing a Claim for Insurance Benefits

The Mortgagee may engage in Judgment collection activities if a claim for FHA insurance benefits is not filed.

3. Programs and Products

a. Adjustable Rate Mortgages (06/30/2023)

i. Definitions

The Change Date is the effective date of an adjustment to the interest rate, as shown in Paragraph 4(A) of the model Adjustable Rate Note form.

The Initial Index Figure is the most recent figure available before the Closing Date of the Mortgage.

The Current Index Figure is:

- the most recent index figure available 30 Days before the date of each interest rate adjustment, for Mortgages closed before January 10, 2015; and
- the most recent figure available 45 Days before the date of each interest rate adjustment, for Mortgages closed on or after January 10, 2015.

ii. Adjusting the Interest Rate on an ARM

To set the new interest rate on an ARM annually, the Mortgagee must review the mortgage documents containing interest rate provisions, and:

- determine the change between the Initial Index Figure and the Current Index Figure; or
- add a specified margin to the Current Index Figure.

Once the new adjusted interest rate is calculated, the Mortgagee must provide notice of the change to the Borrower.

(A) Interest Rate Transition from LIBOR Index to SOFR Index

For adjustable interest rate Mortgages indexed to the London Interbank Offered Rate (LIBOR), Mortgagees must transition the Mortgage from LIBOR to the applicable Refinitiv United States Dollar (USD) IBOR Consumer Cash Fallback (Refinitiv) Secretary-approved spread-adjusted Chicago Mercantile Exchange (CME) Term SOFR tenor replacement index as indicated in the table below to calculate the periodic adjustments to the mortgage interest rate:

Existing FHA-Insured LIBOR-indexed Forward ARM	Secretary-Approved Replacement Index
1-, 3-, 5-, 7-, 10-Year Forward ARMs	12-Month CME Term SOFR (Refinitiv Instrument Code USDCFCFCTSA1Y=)
The approved Refinitiv 12-month CME Term SOFR replacement index is found at: https://www.lseg.com/en/ftse-russell/benchmarks/usd-ibor-cash-fallbacks. **Note**: When downloading historical SOFR rates from Refinitiv, Mortgagees must use the "All-In" CME Term SOFR Rate and select the "Feature" (No Floor).	

The Mortgagee must include a notification to the Borrower of the transition from the LIBOR index to the 12-Month CME Term SOFR replacement index in the ARM Adjustment Notice in accordance with the mortgage documents.

The Mortgagee must calculate the interest rate for each subsequent adjustment to the Mortgage using the 12-Month CME Term SOFR replacement index.

(B) Determining the Current Index Figure on an ARM

The table below describes the Current Index Figure to use based upon the day of the week on which the 30th Day falls.

When the 30th Day falls on a…	AND the 30th Day prior to a Change Date…	Then use the index figure issued on…
Monday that is a business day	and the issue date of an H.15 release both occur on the same day (that is, they both occur on a Monday)	that Monday.
Monday that is a federal holiday	falls on a Monday that is a federal holiday	the prior week.
day of the week other than Monday	n/a	the Monday of that week (or issued on Tuesday, if Monday is a federal holiday).

(C) Determining the Calculated Interest Rate on an ARM

The calculated interest rate is the current index plus the margin (the number of Basis Points (bps) identified as "margin" in Paragraph 4(C) of the model Adjustable Rate Note), rounded to the nearest 1/8th of one percentage point (0.125 percent).

(D) Determining the New Adjusted Interest Rate on an ARM

To determine the new adjusted interest rate, the Mortgagee must compare the calculated interest rate to the existing interest rate in effect for the preceding 12 months.

(1) Calculated Rate is Equal to Existing Rate

If the calculated interest rate is equal to the existing interest rate, then the new adjusted rate is the same as the existing interest rate.

(2) Calculated Rate is Less than Existing Rate

If the calculated interest rate is less than the existing interest rate, then the new adjusted rate is:

- the calculated interest rate for 1-, 3-, and 5-year ARMs if the calculated interest rate is less than one percentage point higher or lower than the existing interest rate; or

- the calculated interest rate for 5-, 7-, and 10-year ARMs if the calculated interest rate is less than two percentage points higher or lower than the existing interest rate.

(3) Calculated Rate is More than Existing Rate

If the calculated interest rate is more than the existing interest rate, then the new adjusted rate will be:

- limited to one percentage point higher or lower than the existing interest rate for 1-, 3-, and 5-year ARMs, if the new calculated interest rate is more than one percentage point (100 bps) higher or lower than the existing interest rate. (Note: index changes in excess of one percentage point may not be carried over for inclusion in an adjustment in a subsequent year); or
- the calculated interest rate for 5-, 7- and 10-year ARMs, if the calculated interest rate is more than two percentage points (200 bps) higher or lower than the existing interest rate. (Note: index changes in excess of two percentage points may not be carried over for inclusion in an adjustment in a subsequent year).

(E) Interest Rate Adjustments over the Term of the ARM

The Mortgagee must not adjust the interest rate over the entire term of the Mortgage resulting in a change in either direction of more than:

- five percentage points (500 bps) from the initial contract interest rate for 1-, 3-, and 5-year ARMs; or
- six percentage points (600 bps) for 5-, 7-, and 10-year ARMs.

(F) Effective Date of the ARM Interest Rate Adjustment

The adjusted interest rate is effective on the Change Date and remains in effect until the next Change Date.

During the term of the Mortgage, the Change Date must fall on the same date of each succeeding year.

iii. Computing the Monthly Installment Payment after an ARM Adjustment

The Mortgagee must determine a new monthly payment each time there is an interest rate adjustment. The Mortgagee must calculate the portion of the monthly payment attributable to P&I by:

- determining the amount necessary to fully amortize the unpaid principal balance for the remaining term of the Mortgage;
- crediting all eligible prepayments; and
- not debiting any delinquency.

To calculate the monthly installment, the Mortgagee must use the scheduled principal balance that would be due on the Change Date but reduced by the amount of any prepayments made to the principal.

All ARM adjustments affect interest rates only; negative amortization is not permitted.

iv. ARM Adjustment Notices

(A) Standard

At least annually and before any adjustment to a Borrower's monthly payment may occur, the Mortgagee must provide written notification regarding the adjustment.

(1) Time Frame

(a) For Mortgages Closed before January 10, 2015

If the notice follows an adjustment in the monthly payment, the Mortgagee must provide the Borrower notice:

- at least 25 Days before any adjustment; or
- at least 30 Days before the adjustment if the mortgage agreement contains a provision stating that 30-Day requirement.

(b) For Mortgages Closed on or after January 10, 2015

The Mortgagee must provide notice in compliance with the time frames set out in TILA.

(2) Required ARM Notice Content

The content of the Adjustment Notice must advise the Borrower of:

- the new mortgage interest rate;
- the amount of the new monthly payment;
- the current index interest rate value; and
- how the payment adjustment was calculated.

(3) Sending the ARM Adjustment Notice

The Mortgagee must send the Adjustment Notice to the Borrower:

- by Certified Mail, return receipt requested; or
- by first-class mail to all property owners identified on its records.

(B) Required Documentation

The Mortgagee must retain the following in the Servicing File:

- evidence that timely notice was sent to the Borrower; and
- annual adjustment computations for the mortgage term.

(C) Failure to Provide the ARM Adjustment Notice

If the Mortgagee fails to provide notice to the Borrower for more than one year, then the Mortgagee must determine an adjusted interest rate for each omitted year, in order to determine the adjusted interest rates for subsequent years, and perform the following:

(1) Interest Rate Increase

If the Mortgagee's calculations result in an increase of the interest rate, the Mortgagee has forfeited their right to collect the increased amount and the Borrowers are relieved from the obligation to pay the increased payment amount.

(2) Interest Rate Decrease

If the Mortgagee's calculations result in a decrease of the interest rate, the Mortgagee must refund the excess, plus interest from the date of the excess payment to the date of repayment, at a rate equal to the sum of the margin and index in effect on the Change Date.

The Mortgagee must first apply any refund to any existing delinquency, and if excess funds remain, the Mortgagee must, at the Borrower's request:

- provide the Borrower with a cash refund; or
- apply the remaining excess to the unpaid principal balance of the Mortgage.

(D) Errors in the ARM Adjustment Notice

HUD requires that errors be corrected if:

- the Mortgagee miscalculates the interest rate and/or the monthly payment; and
- the errors are reflected in the notice.

v. Commencement of Monthly Payment after ARM Adjustment

After the Mortgagee gives the Borrower proper notice of the adjustment, the Borrower begins paying the new monthly payment 30 Days after the Change Date.

vi. Assumptions of ARMs

In addition to sending the applicable Notice to Homeowner, Release of Personal Liability in Assumptions, the Mortgagee must attach a copy of the original ARM Disclosure Statement that established the index, margin, and the Change Date.

b. Assumptions (12/30/2025)

i. Assumability of FHA-Insured Mortgages

All FHA-insured Mortgages are assumable. The Mortgagee must not impose, agree to, or enforce legal restrictions on conveyances or assumptions after closing except when:

- specifically permitted by HUD regulations; or
- the restriction had been specified in a junior lien granted to the Mortgagee after settlement.

The Mortgagee must review the mortgage documents to determine what restrictions have been placed on the Mortgage.

Anyone assuming an FHA-insured Mortgage must have a valid SSN or EIN or meet the eligibility requirement exception regarding social security numbers.

ii. Notice to Homeowner

The Mortgagee must send the applicable Notice to Homeowner: Release of Personal Liability to:

- all applicants for FHA-insured Mortgages, before settlement; and
- sellers or buyers who request information on HUD's creditworthiness review criteria or procedures for assumptions or releases from personal liability.

iii. Fees for Assumptions

The Mortgagees may charge the assuming Borrower a processing fee that is reasonable and customary, as set in Processing Fees and Other Costs for Assumptions.

(A) Allowable Charges Separate from Assumption Processing Fees

The Mortgagee may charge the assuming Borrower reasonable and customary fees not to exceed the actual costs for third party expenses incurred in connection with assumption processing:

- non-refundable fees for credit reports and verifications of employment; and
- up to $45 for fees for the preparation and execution of release of liability forms (form HUD-92210.1, *Approval of Purchaser and Release of Seller*), where a Borrower requests an executed release of liability form as evidence that the Borrower was released during a previous creditworthiness review.

(B) Refund of Assumption Processing Fees

In the event a Mortgage is not assumed, Mortgagees must refund one-half of its processing fees if the assumptor's credit is approved, but assumption does not occur for reasons beyond the control of the assumptor.

(C) Change of Hazard Insurance

The Mortgagee may not assess a fee for processing the assumptor's request to change hazard insurance coverage when the existing policy has not yet expired.

(D) Section 143 of the Internal Revenue Code of 1986

The Mortgagee must not charge the Borrower any additional fees for ensuring that assumptions of mortgage revenue bond Mortgages comply with requirements of the Internal Revenue Code (IRC).

iv. Notification to HUD of Changes

The Mortgagee must notify HUD via FHAC of assumptions:

- within 15 Days of any change of Borrower; or
- within 15 Days of the date the Mortgagee receives actual or constructive knowledge of the transfer of ownership.

v. Payment of Partial Claim due to Assumption

When the Borrower no longer owns the Property, the Partial Claim becomes due and payable.

At the time of the assumption, the Mortgagee must acquire an official Partial Claim payoff letter from HUD's Servicing Contractor.

vi. Exercise of Due-on-Sale Clause

When a prohibited sale or transfer of the Property occurs, the Mortgagee must enforce the due-on-sale clause by:

- submitting a variance request to HUD via EVARS to accelerate the Mortgage, provided that acceleration is permitted by law; and
- accelerating the Mortgage if approval is granted.

vii. Acceleration of the Mortgage

(A) Requests for Acceleration

The Mortgagee may request approval from HUD to accelerate Mortgages for assumptions made:

- without credit approval; or
- where HUD assumption requirements are not met and the Borrower cannot or will not comply with HUD's requirements at the time the assumption is discovered.

(B) Acceleration Not Permitted

The Mortgagee may not accelerate for the assumptions when:

- acceleration for assumption without credit approval is prohibited by state law;
- the seller retains an ownership interest in the Property; or
- the transfer is by devise or descent (with or without a will).

viii. Communication with Borrowers Regarding Assumptions

Upon any inquiry by a seller regarding HUD's assumption requirements or upon learning that an assumption has occurred, the Mortgagee must:

- attempt to obtain the forwarding address of the selling Borrower;
- advise the selling Borrower to update the mailing address as needed; and
- advise the selling Borrower that any existing PACE obligation that remains with the Property must be fully disclosed to the buyer in accordance with applicable law (state and local) and made part of the sales contract.

ix. Reporting of Defaults on Assumed Mortgages to Consumer Reporting Agencies

If an assumed Mortgage goes into Default, the Mortgagee must not report these Defaults to consumer reporting agencies for former Borrowers, whether those Borrowers remain legally liable for the mortgage debt or have been released from liability. The Mortgagee must notify any Borrowers that remain liable for the mortgage debt that the assumed Mortgage is in Default.

c. Hawaiian Home Lands Mortgages (Section 247 Mortgages) (11/10/2026)

i. Reporting of Delinquent Mortgages

(A) Standard

The Mortgagee must report in Single Family Default Monitoring System (SFDMS) the Delinquency/Default Status Codes that accurately reflect the stage of delinquency or mortgagee action.

In addition, the Mortgagee must notify the State of Hawaii Department of Hawaiian Home Lands (DHHL) each month of:

- which Section 247 insured Mortgages on Leaseholds of Hawaiian Home Lands are 30 or more Days Delinquent on the last Day of the month; and
- the status of Mortgages that were reported as Delinquent the previous month.

(B) Contact Information for Submission of Reports

The Mortgagee must complete its Default reporting in SFDMS to meet its DHHL reporting requirements.

(C) HUD's Loss Mitigation Program

The Mortgagee may offer the following Loss Mitigation Options to eligible Borrowers with Section 247 Mortgages:

- Repayment Plans;
- Forbearance;
- Standalone Loan Modification; and
- Outside of the Waterfall Loan Modification (OWL).

Due to Hawaii state law prohibitions on the placement of junior liens on Properties secured by Section 247 Mortgages, the Mortgagee must not use Partial Claims with Section 247 Mortgages.

ii. Section 247 Assignments

(A) Standard

The Mortgagee may assign the Delinquent insured Mortgage and Note to HUD if all of the following conditions are met:

- the Mortgage has been in Default for 180 Days or more;
- when the Mortgage is 90 Days Delinquent, the Mortgagee has notified DHHL of the Default in writing;
- the Mortgagee has conducted or made a reasonable effort to arrange the Interview at least 30 Days before the application for assignment is submitted, unless exempt; and

- the Mortgagee has evaluated the Borrower for loss mitigation in accordance with HUD guidance.

The Mortgagee must not foreclose on or approve a Pre-Foreclosure Sale (PFS) or Deed-in-Lieu (DIL) transaction on Section 247 Mortgages; the only disposition option available to the Mortgagee is assignment.

(B) Endorsement on Original Note

To assign the Note to HUD, an authorized agent of the Mortgagee must sign the following endorsement on the original Note: "All right, title and interest of the undersigned to the within credit instrument is hereby assigned to the Secretary of Housing and Urban Development of Washington, D.C., their successors and assigns."

(C) Lost Note Affidavit

If the original Note cannot be located, the Mortgagee must submit the Lost Note Affidavit.

iii. Submission of Title Evidence Package and Servicing Records for Assignment

(A) Standard

Prior to filing Hawaiian Home Lands Mortgages (Section 247 Mortgages) Claims for insurance benefits, the Mortgagee must submit the title evidence package and servicing records to HUD for approval.

(1) Title Evidence Package

The Mortgagee must:

- mail the original Note endorsed to HUD in the format required by form HUD-27011, *Single Family Application for Insurance Benefits*, Part A, to HUD at:

  Attn: Section 247 Assignment
  U.S. Department of Housing and Urban Development
  Denver Homeownership Center
  1670 Broadway
  21st Floor
  Denver, CO 80202; and

- upload the following into P260:
  - digital copy of the Note showing the most current endorsement to HUD;
  - Transmittal Letter, indicating the name and telephone number of the person HUD is to contact for more information about the submission;
  - Mortgage with evidence of recordation by DHHL;

- recorded Consent to Mortgage signed by DHHL;
- recorded intervening assignments of Mortgage, if any;
- recorded Assignment of Mortgage (AOM) to HUD with required warranty;
- copy of Borrower's Homestead Lease and recorded Lease Assignments and Amendments, if any; and
- recorded Mortgage Insurance Program Rider to the Homestead Lease.

(2) Servicing Records

The Mortgagee must upload the following into P260:

- copy of form HUD-27011;
- copy of Title Submission Certification;
- proof of request to endorse fire policy;
- mortgage history commencing from date of first payment;
- copy of signed Management Review Checklist, plus all supporting servicing records;
- initial DHHL notification letter; and
- evidence of loss mitigation efforts.

(B) HUD Review

After receiving the original Note and reviewing the title documents and servicing records, HUD will either:

- issue an assignment acceptance letter to the submitting Mortgagee through P260; or
- reject the submission in P260 and:
  - if the title documents contain deficiencies, HUD will provide the Mortgagee 30 Days to cure such deficiencies; or
  - if the servicing records contain deficiencies, HUD will provide the Mortgagee with an explanation for rejection, as applicable.

The Mortgagee may appeal the rejection in P260.

iv. Reconveyance to Mortgagee

If the claim has been paid and HUD does not accept assignment of the Mortgage and Note, HUD will:

- reassign the Mortgage to the Mortgagee;
- reject the submission in P260; and
- request repayment of the claim amount.

If the claim has not yet been paid and HUD does not accept assignment of the Mortgage and Note, HUD will return the submitted original documents to the Mortgagee.

d. Insured Mortgages on Indian Land (Section 248 Mortgages) (01/01/2025)

i. Face-to-Face Interviews

The Mortgagee must have a face-to-face interview with the Borrower or make a reasonable effort to arrange a face-to-face interview no later than the 61st Day of delinquency.

(A) Face-to-Face Meetings Not Required

The Mortgagee is not required to conduct a face-to-face interview if:

- the Borrower has clearly indicated that they will not cooperate with a face-to-face interview; or
- the Borrower's payment is current due to an agreed-upon Repayment Plan or Forbearance Plan; and
- a reasonable effort to arrange a meeting with the Borrower is unsuccessful.

(B) Arranging a Face-to-Face Interview

(1) Standard

To arrange the face-to-face interview, the Mortgagee must:

- make at least one telephone call to the Borrower;
- send one letter certified by the U.S. Postal Service as having been dispatched; and
- make one trip to visit the Borrower at the mortgaged Property.

The Mortgagee must provide the following in each attempt to arrange the face-to-face interview:

- the availability of face-to-face interviews; and
- how to schedule the interview.

(2) Required Documentation

The Mortgagee must document in its Servicing File all attempts in contacting the Borrower to arrange a face-to-face interview, information about the interview, and any decisions or follow-up needed as a result of the interview.

ii. Information Provided to the Borrower

(A) Standard

The Mortgagee must inform the Borrower of the following:

- that information regarding the status and payment history of the Borrower's Mortgage may be made available to credit bureaus and prospective creditors;
- other available mortgage assistance, if any; and

- contact information for the FHA Resource Center (1-800-CALLFHA (1-800-225-5342) and answers@hud.gov) and that the FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities.

(B) Required Documentation

The Mortgagee must note in its Servicing File when and how the Borrower was informed of the information above.

e. Section 222 Mortgages (03/31/2022)

Authority for Mortgages insured under Section 222 of the National Housing Act was repealed on July 30, 2008. The following policies apply for existing Section 222 Mortgages, for which Mortgage Insurance Premiums (MIP) are paid by the servicemember-Borrower's branch of the military service until the servicemember's eligibility is terminated.

i. Requirements for Section 222 Mortgages

(A) Military Branch Responsibility

The military branch is responsible for payment of MIP on a Section 222 Mortgage when the Borrower is:

- a certified servicemember at the time of application; and
- the owner of the Property at the time of FHA endorsement.

(B) Establishing Eligibility

The servicemember-Borrower must submit the original and two copies of a written certification of a servicemember's eligibility, issued by the servicemember's commanding or personnel officer, with their application for mortgage insurance under Section 222. The respective service branch determines benefits eligibility.

ii. Sale of a Property Covered by a Section 222 Mortgage

When a servicemember-Borrower sells the mortgaged Property, the Mortgagee must complete a Mortgage Record Change in FHAC.

(A) Sale of Mortgaged Property to Another Eligible Servicemember

If a mortgaged Property is sold to another eligible servicemember who assumes the Section 222 Mortgage, the Mortgagee must request from the assumptor written certification from their service branch of their eligibility for a Section 222 Mortgage.

If the Mortgagee fails to provide this certification to HUD when requesting insurance, HUD will hold the Mortgagee, and not the service branch, responsible for payment of MIP. The Mortgagee should continue to collect premiums from the servicemember-Borrower and pay the premiums to FHA.

(B) Collection of MIP from Servicemember Assumptor

When a mortgaged Property is sold to another eligible servicemember who will assume the Section 222 Mortgage, the Mortgagee must continue to collect premiums from the assumptor until advised by FHA that the service branch will be responsible for future premiums.

If the Mortgagee has been paying the MIP as a result of prior termination of the service branch's responsibility for payment of premiums, the Mortgagee must continue to collect premiums from the servicemember-Borrower and pay the premiums to FHA.

iii. Mortgage Insurance Premium Payments upon Notice of Termination

Under Section 222, HUD does not require the Mortgagee to collect MIP from the Borrower or to remit premiums to FHA until advised by FHA that the service branch will no longer pay the premiums.

When FHA is notified that the mortgaged Property has been sold or that the servicemember has been discharged, retired, or has died, FHA will:

- request confirmation from the service branch of the termination of MIP; and
- notify the Mortgagee to begin collecting MIP from the servicemember-Borrower.

iv. Continued Payment of Mortgage Insurance Premium by Service Branch When Servicemember Dies on Active Duty

The service branch is responsible for determining continued eligibility of servicemember-Borrowers. If a servicemember-Borrower dies while on Active Duty and is survived by a spouse, the service branch will be responsible for the following:

- continuing to pay MIP on the Mortgage until two years after the servicemember's death or until the spouse disposes of the Property, whichever occurs first;
- notifying FHA when eligibility terminates; and
- paying MIP until confirmation of the termination is received by the FHA Comptroller. FHA will notify the Mortgagee of its responsibility for payment of the MIP.

v. Loss Mitigation for Section 222 Mortgages

The Mortgagee must evaluate all applicable Loss Mitigation Options for Section 222 Mortgages.

f. Good Neighbor Next Door (11/10/2026)

i. Owner-Occupancy Term

The Good Neighbor Next Door (GNND) participant must live in the Property as their sole residence for an owner-occupancy term of 36 months, beginning on one of the following dates:

- 30 Days after closing if the home requires no more than $10,000 in repairs before occupancy;
- 90 Days after closing if the home requires more than $10,000, but not more than $20,000 in repairs; or
- 180 Days after closing if the home requires more than $20,000 in repairs prior to occupancy.

(A) Annual Certification

(1) Standard

GNND participants must certify on form HUD-9549-D, *Good Neighbor Next Door: Sales Program*, every year of the owner-occupancy term that they are living in the Property.

HUD's Loan Servicing Contractor will mail form HUD-9549-D to the GNND participant. The GNND must sign, date, and return the form according to the instructions in the letter.

(2) Failure to Return Certification

If the GNND participant fails to complete and return the annual certification, HUD will take action to determine whether the GNND participant still meets program requirements. These actions include, but are not limited to:

- referral to an investigator, who may perform an on-site visit to verify the occupancy of the Property; and
- referral to HUD's Office of Inspector General (OIG) for further investigation and possible prosecution.

(B) Term Interruption Requests

When the GNND participant requires an interruption to the owner-occupancy term, the Borrower may request approval for a term interruption from HUD.

The GNND participant must submit a written and signed request at least 30 Days before the anticipated interruption to HUD's Servicing Contractor. The request must include the following information:

- the reason(s) why the interruption is necessary;
- the dates of the intended interruption; and
- a certification that:

- the GNND participant is not abandoning the home as their permanent residence; and
- the GNND participant will resume occupancy of the home upon the conclusion of the interruption and complete the remainder of the 36-month owner-occupancy term.

(C) Active Duty Military Service

Eligible GNND program participants who are also military servicemembers protected by the SCRA are not required to submit their written request to HUD 30 Days in advance of an anticipated interruption, but must submit their written request as soon as practicable upon learning of a potential interruption.

HUD may grant exceptions to the occupancy requirement for participants who are called to Active Duty service. These participants must notify HUD's Servicing Contractor when Active Duty military service would require temporary relocation outside of the commuting area of the Property purchased under the GNND program. HUD will credit all time served on active military duty against the three-year occupancy requirement.

HUD will allow GNND participants called to active military duty to rent their homes during their absence. The term of the rental must not exceed 30 Days past the end of the Active Duty period, or other period required by state or local law. GNND Program participants must resume occupying the Property within 30 Days of their release from active duty or the end of the rental period.

(D) Failure to Complete Owner-Occupancy Term

If the GNND participant sells their home or stops living in the home as their sole residence prior to the expiration of the owner-occupancy term, they will owe HUD the amount due on the second Mortgage as of the date the Property is either sold or vacated.

ii. Second Mortgage and Note Servicing

HUD's Servicing Contractor is responsible for the servicing of GNND second Mortgages.

GNND Participants must submit requests for subordinations, payoff amounts, mortgage releases, or other servicing information to HUD's Servicing Contractor.

(A) Subordinations

To request subordination of a GNND Mortgage, the GNND participant, or the Closing Agent responsible for closing the new Mortgage must:

- contact HUD's Loan Servicing Contractor to receive a Subordination Information Sheet; and

- submit the required documentation, as listed in the Subordination Information Sheet, to HUD's Loan Servicing Contractor.

(B) Payoffs

To pay off a GNND Mortgage before the expiration of the owner-occupancy term, the GNND participant must submit to HUD's Loan Servicing Contractor a request for a Payoff, including the following information:

- GNND participant's name;
- full property address;
- estimated date of Payoff;
- name, address, telephone number, and return fax number of the entity requesting the Payoff; and
- signed permission of the GNND participant to collect this information.

(C) Releases

At the end of the required owner-occupancy term, HUD will release the GNND second Mortgage as long as all of the following conditions are met:

- The GNND participant has completed and returned the required annual certifications.
- The GNND participant is not currently under investigation by OIG.
- The GNND participant is in compliance with all GNND regulations.

HUD's Loan Servicing Contractor will prepare this release and file the mortgage satisfaction with the GNND participant's local county recorder's office.

g. Homeownership and Opportunity for People Everywhere for Homeowners (09/26/2022)

The Housing and Economic Recovery Act of 2008 amends the National Housing Act to authorize the temporary Homeownership and Opportunity for People Everywhere (HOPE) for Homeowners Program (also referred to as the H4H Program). Under the program, a Borrower facing difficulty paying their Mortgage was eligible to refinance into an affordable FHA-insured Mortgage. The H4H Program was effective for endorsements on or after October 1, 2008, through September 30, 2011.

i. HUD Contact

Mortgagees should contact HUD's Servicing Contractor for questions related to servicing or satisfaction of H4H Exit Premium Mortgages (EPM).

ii. Annual Premium

The Mortgagee must collect the annual premium at 0.75 percent of the Base Loan Amount. The Mortgagee must follow standard FHA guidelines for the cancellation of the annual premium.

iii. Voluntary Termination of Mortgage Insurance

The Borrower and Mortgagee may mutually request termination of mortgage insurance. The Borrower will not receive a refund of any Upfront Mortgage Insurance Premium (UFMIP) received by HUD and will remain obligated for the exit premium and appreciation Mortgages.

iv. Sale and Payoff

Upon sale or other disposition of the Property securing an H4H Mortgage, the Borrower must satisfy HUD's equity interest, if not already satisfied through refinance. HUD is entitled to its respective percentage of the initial equity amount as stated in the EPM, even if there are no net proceeds or if net proceeds are negative.

Upon receipt of a payoff request, HUD's Servicing Contractor will calculate the payoff amount for its equity interest and issue a payoff demand to the Closing Agent.

v. Refinancing

HUD will permit the refinancing of an H4H Mortgage subject to the requirements established in this section. In the event of any refinance of the H4H Mortgage, the Borrower must pay to HUD its full equity interest as stated in the EPM.

HUD will permit the refinancing into another conventional loan product no earlier than 12 months from the date of closing on the H4H Mortgage. The Borrower may refinance if:

- the refinance results in a 30-year amortizing fixed rate Mortgage with a Principal and Interest (P&I) payment that is lower than the P&I payment due on the existing H4H Mortgage;
- the proceeds from the refinance are sufficient to pay off the percent of initial equity due to HUD; and
- the cash received by or on behalf of the Borrower is limited to the Borrower's applicable percentage of initial equity created by the H4H Mortgage, as stated in the EPM, any earned equity the Borrower has accrued, and any appreciation.

vi. Default and Loss Mitigation

The Mortgagee may utilize HUD's Loss Mitigation Program for H4H Mortgages, subject to the following special considerations.

(A) Loan Modifications

HUD will subordinate the EPM to the modification of an H4H Mortgage completed in accordance with HUD's Loss Mitigation Program.

(B) Partial Claim

For a Partial Claim Note, HUD does not require subordination of the EPM.

(C) Pre-Foreclosure Sale

The Mortgagee must include the total dollar amount of the EPM in the total debt calculation for the negative equity ratio calculations.

(D) Deed-in-Lieu

HUD will accept a DIL subject to the EPM lien.

vii. Exit Premium

(A) Definition

Initial equity is the lesser of:

- the appraised value at the time of the H4H loan origination less the original principal balance on the H4H Mortgage; or
- the outstanding amount due under all existing Mortgages less the original principal balance on the H4H Mortgage.

(B) Standard

In the event of refinance, sale, or other disposition, HUD is entitled to receive the following percentage of initial equity:

Year	% of equity to be paid to FHA
During Year 1	100% of equity
During Year 2	90% of equity
During Year 3	80% of equity
During Year 4	70% of equity
During Year 5	60% of equity
After Year 5	50% of equity

h. Nehemiah Housing Opportunity Grants Program (03/31/2022)

Title VI of the Housing and Community Development Act of 1987 established the Nehemiah Housing Opportunity Grants Program (NHOP), which authorized HUD to make grants to nonprofit organizations enabling them to provide Mortgages to families purchasing homes constructed or substantially rehabilitated in accordance with a HUD-approved program. The program was funded by Congress in 1989, 1990, and 1991. It is no longer an active program as grant funds were exhausted in April 1991. HUD's Servicing Contractor handles the satisfaction of liens still outstanding from this program.

i. Servicing FHA-Insured Mortgages for Servicemember-Borrowers (11/10/2026)

i. Servicemembers Civil Relief Act

The Servicemembers Civil Relief Act of 2003 (SCRA) as amended by Public Law 108-189, effective December 19, 2003, provides legal protections and debt relief for persons in Active Duty military service. The following protections apply to the servicing of FHA-insured Mortgages:

- mortgage relief;
- termination of leases;
- protection from eviction;
- 6 percent cap on interest rates;
- stays of proceedings; and
- reopening Default Judgments.

(A) Relief Provisions for the Military

SCRA provides legal protections and debt relief for persons in Active Duty military service the criteria for which are established in 50 U.S.C. App. § 3911. Dependents of servicemembers are entitled to protection in limited situations. "Dependents" is also defined in 50 U.S.C. App. § 3911.

(B) Obligations and/or Liabilities Prior to Entering into Active Military Service

(1) Interest Rate Cap

(a) Standard

Obligations or liabilities incurred by a servicemember and/or servicemember's spouse jointly before entering into active military service must not bear interest at a rate in excess of 6 percent per year during the period of military service and one year thereafter (unless superseded by updates to the SCRA Act), in the case of an obligation or liability consisting of a Mortgage, trust deed, or other security in the nature of a Mortgage.

(b) Required Documentation

The Mortgagee must apply the interest rate cap if it receives from the servicemember the documents listed below no later than 180 Days after the date of the servicemember's termination or release from military service:

- a written notice;
- a copy of military orders calling the servicemember to military service; and
- orders further extending military service, if any.

(c) Mortgagee Implementation

The Mortgagee must limit interest to 6 percent per year effective the date on which the servicemember is called to military service. Only a court may grant exceptions if the ability of the servicemember to pay interest upon the obligation or liability at a rate in excess of 6 percent per year is not materially affected by being in military service.

(2) Reduction of Monthly Payments

When interest must be reduced to 6 percent on an FHA-insured Mortgage due to SCRA, the Mortgagee may calculate interest due for the period of Active Duty on a per diem basis or permit the lower interest rate for the entire first and last months of service.

(a) Mortgagee is Notified of SCRA Applicability

Where the servicemember notifies the Mortgagee of their eligibility for SCRA protection, the Mortgagee must:

- advise the servicemember or representative of the adjusted amount due;
- provide adjusted coupons or billings; and
- ensure reduced payments are not returned as insufficient.

(b) Mortgagee is Not Notified of SCRA Applicability

Where the servicemember does not notify the Mortgagee of their eligibility for SCRA protection and submits a reduced payment, the Mortgagee must:

- attempt to contact the Borrower or representative to determine whether the Borrower is on Active Duty; and
- return insufficient payment if appropriate explanation is not provided and otherwise in compliance with HUD guidance.

(C) Verification of Military Service

The Mortgagee may request a statement of military service from the U.S. Department of Defense's Servicemembers Civil Relief Act (SCRA) website.

ii. HUD Postponement of Principal Payments for Servicemembers

(A) Standard

The Mortgagee may, by written agreement with the Borrower, postpone for the period of military service and three months thereafter any part of the monthly Mortgage that represents amortization of principal.

The Mortgagee must include in the agreement a provision for the resumption of monthly payments after such period, in amounts which will completely amortize the mortgage debt within the maturity, as provided in the original Mortgage.

(B) Required Documentation

The Mortgagee must retain in the Servicing File a copy of the written agreement postponing principal payments.

iii. Postponement of Foreclosure

(A) Reasonable Diligence Time Frame Calculation

When calculating deadlines to commence foreclosure or acquire Property by other means, the Mortgagee may exclude the period of time when the Borrower is in Active Duty military service. HUD does not consider postponement or delay in initiating a foreclosure while the Borrower is Active Duty military service a failure to exercise reasonable diligence.

The Mortgagee may voluntarily withhold foreclosure with or without applying Partial Payments that advance the date of Default.

(B) Required Documentation

The Mortgagee must document any delays associated with compliance with the SCRA in the Servicing File and the Claim File.

j. Section 235 Mortgages (03/31/2022)

Effective May 4, 2015, HUD removed the regulations for its Section 235 Program, which authorized HUD to provide mortgage subsidy payments to Mortgagees to assist lower-income families who were unable to meet the credit requirements generally applicable to FHA mortgage insurance programs. Authority to insure new Mortgages under Section 235 expired October 1, 1989. To the extent that any Section 235 mortgages remain in existence, or second mortgages for the recapture of subsidy payment pursuant to HUD's regulations governing the Section 235 Program, the removal of these regulations does not affect the requirements for transactions entered into when Section 235 Program regulations were in effect. A Borrower with an existing Section 235 Mortgage may still refinance the Mortgage.

Section 235 Mortgages have additional servicing requirements due to the Assistance Payment Contract. The Mortgagee must continue servicing Section 235 Mortgages in accordance with published guidance, preserved here verbatim. Mortgagees should direct questions regarding Section 235 Mortgage servicing to HUD.

i. Section 235 Mortgages

Formerly HUD Handbook 4330.1, REV-5, Chapter 10

10-1 GENERAL (24 CFR 235). Under the Section 235 program, HUD assists mortgagors in making their monthly mortgage payments by paying directly to the mortgagee a portion of the mortgagor's monthly payment as long as the mortgagor remains eligible for subsidy under this program.

Servicing of Section 235 mortgages is generally the same as that described in the previous chapters of this handbook for mortgages insured under other HUD programs, except this program has added requirements due to the assistance payments contract (Subpart C of 24 CFR 235).

A. Mortgages Subject To Recapture (24 CFR, Part 235, Subpart C). Pursuant to a firm commitment issued on or after May 27, 1981, all or part of the assistance payments is subject to recapture under certain circumstances. (Recaptures and mortgagees' responsibilities with respect to recaptures are discussed in detail in Chapter 11).

B. Reactivation Of Section 235. The Appropriations Act of 1984 reactivated the Section 235 program in accordance with Section 226 of the Housing and Urban Rural Recovery Act (HURRA) of 1983. The provisions of the reactivated program (which is known as Section 235 Revised/Recapture/10), are discussed in Paragraph 10-36.

10-2 CONTRACT FOR MONTHLY ASSISTANCE PAYMENTS (24 CFR 235). The terms and conditions of the assistance payment contract are contained in Subpart C of Part 235 of the HUD regulations. The issuance of the Mortgage Insurance Certificate (MIC), Form HUD-59100, to the HUD-approved mortgagee incorporates these provisions by reference to the contract between HUD and the mortgagee.

A. What Constitutes Execution Of The Contract (24 CFR 235.310). Issuance of form HUD-59100 constitutes execution of the contract for assistance payments with respect to that particular mortgage. The date of endorsement of the MIC does not affect the term of the contract.

B. Date Contract Term Begins. The term of the contract begins on either the date of disbursement of the mortgage proceeds or the date the mortgagor occupies the property, whichever occurs later.

NOTE: "Date of disbursement" in this instance means the date the funds escrowed to assure completion (in accordance with Form HUD-92300, Mortgagee's Assurance of Completion), have been disbursed.

C. Date Contract Term Ends (24 CFR 235.345). The term of the contract ends on the first day of the month following the occurrence of one of the events listed under Paragraph 10-19.

D. Definitions (24 CFR 235.5). Listed below are definitions of some of the terms used in this chapter as they pertain to the Section 235 program.

1. "Family" or "Household" (24 CFR 235.5). These terms mean:

   a. a pregnant woman, or two or more persons related by blood, marriage, or operation of law, who occupy the same unit;
   b. a handicapped person who has a physical or mental impairment which is expected to be of a continued duration and which impedes his/her ability to live independently unless suitable housing is available; or
   c. a single person, 62 years of age or older.

2. "Adjusted Annual Income" (24 CFR 235.5). This term means the annual family income remaining after making certain exclusions from gross annual income as shown in 24 CFR 235. 5(a)(1), (2) and (3).

3. "Gross Annual Income" (24 CFR 235.5). This term means the total income (i.e., before any adjustments, tax deductions or any other deductions), received by all members of the mortgagor's household for those items listed in Paragraph 10-9.

4. "Minor" (24 CFR 235.3). This term means a person under the age of 21 but shall not include a mortgagor or the spouse of a mortgagor.

5. "Cooperative Member" (24 CFR 235. 325). This term means a person who is a member of a cooperative association which operates a housing project financed with a mortgage insured under Sections 213 or 221 of the National Housing Act and meets the conditions set forth under 24 CFR 235.325 and 235 330.

6. "Active Contract". This term means a Section 235 assistance payment contract that is not currently suspended or terminated.

7. "Recertification of Family Income and Composition". This term means the process for determining whether a mortgagor's household;

   a. continues to qualify for the Section 235 assistance now being received; and/or
   b. is eligible for more or less assistance than is currently being received.

10-3 CONTRACT FOR MONTHLY ASSISTANCE PAYMENTS UNDER THE HOUSING AND URBAN RURAL RECOVERY ACT OF 1983. The Section 235 Revised/Recapture/10 Program provides for the following:

A. an assistance payments contract executed by the mortgagee and HUD which includes the "Notice To Buyer", signed by the mortgagors; and

B. the mortgagee must submit to the local HUD Field Office having jurisdiction over the mortgage the completed and executed contract along with the closing package at the time of insurance endorsement. (HUD will execute the contract and return it to the mortgagee with the Mortgage Insurance Certificate.)

10-4 CONTINUING ELIGIBILITY FOR ASSISTANCE. Once the assistance payments contract has been executed and the mortgage insured, many of the initial eligibility requirements (such as owning other property, family size, etc.,) no longer restrict the mortgagor's continuing eligibility for assistance.

A. Requirements To Continue Receiving Assistance. In order to continue receiving assistance payments, the mortgagor must meet all four of the following conditions:

   1. Owner-occupancy Continues. Must be a mortgagor (as described in 24 CFR 235.315) or a cooperative member (as described in 24 CFR 235.325) and live in the mortgaged property;

      a. Co-mortgagors. Where there are co-mortgagors, this requirement will be satisfied as long as one co-mortgagor lives in the mortgaged property.

      b. Absentee Occupant. If a mortgagor is away from the mortgaged property for a period up to one year this requirement will be satisfied if the absence is due to circumstances beyond his/her control and the mortgagor has taken no action which would indicate this property is no longer his/her primary residence. Each case must be decided on its own merit as to whether the circumstances meet the occupancy requirement. If additional guidance is needed, the HUD Field Office having jurisdiction over the mortgaged property should be contacted. Examples of an "absentee occupant" may include, but not necessarily be limited to, a member of the armed forces, and/or a hospitalized mortgagor.

         NOTE: Assistance payments must be suspended where the mortgagor:

         (1) actually collects rent for the mortgaged property;

(2) vacates the mortgaged property for any reason other than for a temporary absence;
(3) offers the property for rent or sale;
(4) fails to make the mortgage payments after vacating the property;
(5) rents another property which the mortgagor is occupying for any reason other than for a temporary absence (as described in (1) - (4) above) from his mortgaged property;
(6) purchases and occupies another property (mortgagor or co-mortgagor)

c. Appointed Trustee/Guardian. In the event of the death of the mortgagor and a trustee/ guardian was appointed as the only survivors were minors, this requirement may be satisfied if the appointed trustee/guardian lives in the mortgaged property with the surviving minors.

2. Contract Remains Active. Must be under an assistance payments contract that has not been suspended or terminated;

3. Meets Income Requirements. Mortgagor has insufficient income to make the full monthly mortgage payment with 20 or 28 percent of income depending on the firm commitment date of the mortgage; and

NOTE: The 20 percent calculation applies to mortgages insured pursuant to a firm commitment issued on or before October 26, 1984. The 28 percent calculation applies to mortgages insured pursuant to a firm commitment issued on or after October 27, 1984.

4. Recertifies As Required. Recertifies as to occupancy, employment, family composition, and income at least annually and at such other times as required by HUD regulations 24 CFR 235.350.

B. Basis Of Assistance Calculation. If the four conditions cited in Paragraph A above are met, only the amount of assistance remains to be calculated. This calculation is based on periodic recertifications of income, family composition, occupancy and employment as discussed in Paragraph 10-5.

C. Disclosure And Verification Of Social Security Number (SSN). The disclosure and verification of the SSN is an explicit condition of continued eligibility for Section 235 assistance. All mortgagors (and members of their households six years of age and older) are required to disclose and verify complete and accurate SSNs in connection with any recertification.

D. Verification Of The SSN Is A One-time Requirement. If a mortgagor provides the mortgagee with documentation to verify the SSN at the time of an annual recertification (October 1990), it is not necessary to provide the documentation to verify the SSN for any subsequent recertifications. However, disclosure of the SSN must be provided at the time of each recertification. Mortgagees must advise mortgagors of the requirements in writing.

E. Documentation Requirements.

1. Documentation is required for each SSN disclosed. To document the SSN, all individuals should furnish a copy of a valid Social Security Card (SSC) issued by the Social Security Administration of the Department of Health and Human Services. (The SSN has nine digits separated by hyphens as follows: 000-00-0000).

2. In those cases where the individual is unable to provide a copy of a valid SSC, mortgagees may accept copies of any two of the following documents which would contain the SSN and the individual's identity:

   a. A driver's license.
   b. An identification card issued by a Federal, state or local agency.
   c. An identification card issued by an employer or trade union.
   d. Earnings statements or payroll stubs.
   e. Bank statements or personal checks.
   f. Internal Revenue Service (IRS) Form 1099.
   g. Unemployment benefit letter.
   h. Retirement benefit letter.
   i. Life insurance policies.
   j. Court records: such as marriage and divorce judgments or bankruptcy records.
   k. Other documents that the mortgagee determines adequate evidence of a valid SSN.

F. Individuals who have applied for legalization under the Immigration Reform and Control Act of 1986 (IRCA) are an exception to the documentation requirements stated above.

1. These individuals have a SSN to disclose but will not have the copy of the SSC as documentation. Acceptable documentation from those individuals is a letter from the Immigration and Naturalization Service (INS) assigning them the SSN.

2. IRCA applicants generally applied for a SSC at the time they applied for amnesty. The Social Security Administration assigned these individuals a SSN and issued a SSC. However, this card was forwarded to INS and was placed in the applicant's file. INS sends a letter to IRCA applicants informing them that a SSN has been assigned and they may use it until they are granted temporary lawful resident status.

G. Unacceptable Documentation. Mortgagees may not accept documents that:

1. Are produced or completed by individuals, such as business cards, self completed wallet identification cards, or other store purchased cards. (People often purchase a plastic or metal SSC from companies or mail order firms.)

2. Have little or no importance, such as club membership or library cards.

3. Mortgagees have the discretion to include similar documents in this category.

H. Invalid Or False Documents. A mortgagee may reject documents that are invalid or false. To be considered invalid or false, the document must fall under one of the following categories:

1. Invalid Social Security Numbers - Some individuals use invalid numbers taken from sample cards put in new wallets or from similar advertising.

2. False Documents - False Identification documents can be either counterfeit, altered, or impostors:

   a. Counterfeit - A forgery of a genuine document or a copy of a document which may appear authentic but is not legally issued.

   b. Altered - A genuine document that has had some identification changed to match the bearer. Most often the name, photograph, address or age and physical description are changed on altered documents.

   c. Imposter - A genuine document obtained under false pretenses, or a blank genuine document stolen from the issuing agency.

I. Procedures For Rejecting SSNs Or Documentation. When a mortgagee suspects that it has been given an invalid or false document to evidence the SSN, it should notify the homeowner and require an explanation or additional proof of the SSN. If the additional documentation is questionable, the mortgagee may require the SSC be provided, or a duplicate card obtained if the original is not available. If the additional documentation does not satisfy the mortgagee that it is valid or genuine, the following actions must be taken:

1. The assistance payments contract must be suspended effective the 1st day of the first month after receipt of the additional documentation.

2. The assistance payments contract cannot be reinstated until the validity of the SSN can be verified. The mortgagee must advise the homeowner in writing of the action.

3. If the validity of the SSN is verified, the assistance payments contract is to be reinstated effective the 1st day of the month following receipt of the documentation.

J. Certifications.

1. If individuals disclose their SSN, but are unable to meet the verification requirement, a written certification must be executed by the individual to this effect. The certification should state the individual’s name, SSN, and that he/she is unable to submit the documentation. The certification must be signed, and dated by each individual who does not have the documentation. If the individual is under 18 years of age, the certification must be executed by his/her parent or guardian.

2. The individual then has 60 days from the date of certification to obtain necessary documentation to verify the SSN disclosed. If an individual is at least 62 years of age, the mortgagee may at its discretion, extend the period up to an additional 60 days (or 120) days after certification).

3. The mortgagee may refer the homeowner to the local Social Security Office so that he/she may complete and submit Form SS-5, "Application for Social Security Card," to request a duplicate Social Security Card.

4. If any individual has not been assigned a SSN, a certification executed by that individual is required. The certification should state the individual's name, and that he/she has not been assigned a SSN. The individual should then date and sign the certification. If the individual is under 18 years of age, the certification must be executed by/his parent or guardian. This certification is required annually. No further action is needed. A mortgagee cannot require an individual to apply for a SSN.

K. Criminal Violations.

1. Since the SSN was considered an administrative tool for many years, it was not considered necessary to have a penalty provision covering the fraudulent application for or use of a SSN. However, as time passed and the SSN came into broader use, the need to protect it became more apparent. Penalty provisions were added to the Social Security Act and are contained in 42 U. S. C. 408(f), (g) or (h). Violations of these statutes include

   a. Providing false information to obtain a SSN.
   b. Using a SSN based on false information to get a federally financed benefit.
   c. Using someone else's SSN.
   d. Misusing a SSN for any reason.
   e. Making, possessing, buying, or selling counterfeit Social Security cards.

2. If documentation obtained indicates that the homeowner knowingly intended to deceive the mortgagee, referral of the information should be forwarded to the Office of Inspector General for the Department of Health and Human Services (DHHS) may be contacted by toll-free hotline: 1-800-368-5779 or by contacting a Regional Inspector General for investigation.

10-5 RECERTIFICATION OF INCOME, FAMILY COMPOSITION, OCCUPANCY AND EMPLOYMENT.

A. Recertification Requirements. In an effort to fully apprise mortgagors of their responsibility and the importance of reporting all required information timely, mortgagees must notify mortgagors of the requirement not only at the time of the annual recertification but also at an additionally specified time within 30 days after the end of each calendar year. It is suggested that this be accomplished at the same time the mortgagor is provided a statement of the interest paid and the taxes disbursed from the escrow account during the preceding year.

1. Requirement For All Mortgages (24 CFR 235. 350 and 235. 355). Mortgagees must secure recertifications of gross income, family composition, occupancy, and employment at least annually and as otherwise required by HUD regulations to ensure that the amount of assistance paid on behalf of the mortgagor is that which is authorized by statute.

2. Disclosure and Verification of Social Security Numbers (24 CFR 235.350(d)). Mortgagor must meet the disclosure and verification requirements for Social Security Numbers in connection with any recertification.

3. Requirement For Mortgages Insured On Or After January 5, 1976. The annual recertification must contain a statement of the total gross income (i.e., before adjustments and/or deductions) reported for all adult family members living in the household as shown on their last federal income tax returns.

   NOTE: If the "total" gross income reported on their last federal income tax returns is "individually or collectively" more than 25 percent above the income reported on the recertification, the mortgagee must require a written explanation of the difference in income from the mortgagor.

B. Recertification Form To Be Used. The only acceptable form on which mortgagors and their families may recertify is the Form HUD-93101, Recertification of Family Income and Composition, Section 235(b). The recertification must include the following:

1. the signature of at least one mortgagor;
2. the date of the signatures;
3. current income, total income for last 12 months and expected income for next 12 months of all family members;
4. names and addresses of sources of income for verification purposes; and
5. Social Security Numbers of all family members 6 years of age and older.

10-6 WHEN RECERTIFICATIONS ARE REQUIRED (24 CFR 235.350).

A. Annual Recertifications.

1. Date Recertification Must Be Performed. Except where the mortgagor has been recertified within 90 days prior to the anniversary (or arbitrary anniversary) date, the mortgagee must recertify the mortgagor at least annually on either:

   a. the anniversary date of the first mortgage payment due under the mortgage; or
   b. an arbitrary anniversary date established by the mortgagee for its entire portfolio of Section 235 mortgages.

2. Events Which Permit Recertification Anniversary Dates To Be Changed. Once established, annual and arbitrary anniversary dates are to remain constant except when:

a. the mortgage is recast;
b. the mortgage is transferred to a new mortgagee or servicer; and/or
c. prior written approval has been obtained from the local HUD Field Office where the mortgagee is located with a copy of such approval must be maintained in each individual case file. A copy must also be provided as an attachment to the Form HUD-93102 assistance payment request form notifying HUD Headquarters Office of Finance and Accounting's Subsidy Accounting Branch.

NOTE: When any of the above events occur, the mortgagee or servicer automatically has the option of:

(1) using the anniversary date of the first mortgage payment due under the mortgage;
(2) using the same arbitrary anniversary date (assuming an arbitrary date was being used) as the transferring mortgagee or servicer; or
(3) selecting a different arbitrary anniversary date.

B. Intermittent Recertifications.

1. For Mortgages Insured Before January 5, 1976. Recertifications must be done within 30 days of the effective date of any "addition to" the adult family's "source of income". An "additional" source of income" may be due to, but not necessarily limited to, the following:

a. a family member (other than a mortgagor) may have reached the age of 21. If this family member was a wage earner, this would require that his/her wages now be taken into consideration when computing assistance payments;
b. an adult who did not work previously may have obtained employment;
c. an adult who had a job may have elected to get an additional part-time job; and/or
d. a family wage earner may have gotten married.
e. an adult wage earner joins the family through marriage.

NOTE: Unless the increase was due to a change in source, the mortgagor needs only to recertify at the next anniversary—at which time the increase must be reported to the mortgagee.

2. For Mortgages Insured On Or After January 5, 1976. Recertification is required within 30 days of the date when the total gross income increases by $50 or more per month, regardless of whether the source changes.

It is the mortgagor's responsibility for providing this information to the mortgagee.

Mortgagors must be made aware that their failure to advise the mortgagee of an increase in income within the 30-day time frame could result in that mortgagor being required to repay a significant amount of overpaid assistance (24 CFR 235. 350(c)).

C. Recertifications. At The Direction Of The Secretary Of HUD. The Secretary of HUD, and/or his designee, may require recertification any time there is reason to believe recertification is warranted (24 CFR 235.350(a)(3)).

D. Optional Recertifications. At The Request Of The Mortgagor (24 CFR 235.355). The mortgagor has the option of requesting that the mortgagee accept a recertification any time there is a reduction (of any amount) in the adult family income.

Should the change not be made within the 30-day time frame due to the mortgagor's failure to notify the mortgagee, any increase in assistance resulting from income decrease will be made effective the first day of the month following the date the recertification is received by the mortgagee and not retroactively. (24 CFR 235.360).

1. Acceptable Reasons For Performing Optional Recertifications. The mortgagor may request an optional recertification due to, but not necessarily limited to, any of the following reasons:

   a. an adult wage earner's death;
   b. an adult wage earner moving out of the property;
   c. an adult wage earner becoming unemployed; and/or
   d. an adult wage earner's loss and/or reduction of overtime or salary.

   NOTE: If the mortgagor is already receiving the maximum assistance allowed based on income (i.e., maximum allowed under Formula Two), the recertification requesting that assistance be increased need not be processed. However, the mortgagor must be advised, in writing, of the reason for the mortgagee's inability to increase the assistance payment.

2. Time Frame For Making The Request.

   a. In the case of self-employed adult family members, the reduction must have continued for at least 90 days prior to the mortgagor's request for recertification. The best information available must be used to ensure that the reduced income has been in effect for 90 days. Assistance must not be based on the unsupported word of the mortgagor.
   b. For mortgagors NOT self-employed, the reduction or loss of income must reduce the family income to less than the income that was used in computing the most recent assistance.

3. Time Frame for Mortgagee To Process Optional Recertification. The mortgagee must request on HUD Form 93101-A to make any assistance increase effective the first day of the month following the month the mortgagor's recertification is received.

10-7 ANNUAL RECERTIFICATION OF MORTGAGORS.

A. Time Frame For Requesting Recertifications. Unless the assistance payments contract has been suspended or terminated, annual recertifications must be secured by the mortgagee:

1. no earlier than 60 days before and no later than 30 days after the mortgage (or arbitrary) anniversary date; and
2. the HUD-93101-A must be received by HUD Headquarters Office of Finance and Accounting's (OFA's) Subsidy Accounting Branch no later than 45 days after the mortgage anniversary (or arbitrary anniversary) date.

   NOTE: The Subsidy Accounting Branch (SAB) will identify as suspended the subsidy payments on cases when required annual recertifications are not received by the 45th day after the anniversary date. SAB will notify mortgagees by letter that an account has been identified as suspended.

   When subsidy is identified as suspended by SAB due to untimely recertification, it will not be paid retroactively unless the HUD-93114 request for reinstatement and the HUD-93101-A are accompanied by a statement from the mortgagee. The statement must include the reason for mortgagee's failure to adhere to recertification requirements.

   Assistance payments identified as suspended by SAB shall not be retroactively reinstated because a mortgagor failed to properly respond to a timely request from the mortgagee for recertification.

   For examples of the effective dates of payment changes resultant from recertifications, see Paragraph 10-15C.

B. "Reasonable Effort" Action Required Of Mortgagee. A reasonable effort must be made by the mortgagee to comply with the time frames shown in Paragraph 10-7A. In order for the mortgagee's actions to meet the "reasonable effort" requirement, the mortgagee's actions must include, but not necessarily be limited to, the following:

   1. sending a written notice to the mortgagor, early enough to result in obtaining recertification no earlier than 60 days before and no later than 30 days after the mortgage anniversary (or arbitrary anniversary) date, which:

      a. advises the mortgagor of the annual recertification requirement;
      b. transmits a Form HUD-93101 that must be filled out and returned to the mortgagee;
      c. advises the mortgagor that failure to return the completed HUD-93101 within the required time frame will result in suspension of subsidy payments;
      d. advises the mortgagor that assistance payments will not be made retroactively and that the mortgagor will be responsible for making the full mortgage payment during the period of suspension;
      e. advises the mortgagor that the reinstatement of suspended subsidy payments will not be effective until the first payment month which occurs after 30 days from the date of the mortgagee's receipt of HUD-93101 from the mortgagor; and
      f. provides a telephone number and contact name to be used by the mortgagor to obtain responses to recertification questions.

2. providing special help (whether requested or not) to mortgagors who are unable to recertify due to lack of education, language barrier, physical or emotional impairments.

   NOTE: Mortgagees are expected to assist mortgagors in completing forms and/or advising relatives or community assistance agencies when mortgagors need assistance in filling out forms.

10-8 MORTGAGOR FAILS TO RECERTIFY WITHIN TIME FRAME (24 CFR 235.375(b)(4)). If the mortgagor fails to respond to the mortgagee's request for recertification within the required time frame, the mortgagee is required to request via Form HUD-93114 that the HUD Headquarters OFA's Subsidy Accounting Branch suspend assistance payments effective the first month after the date that the recertification was required.

NOTE: The Subsidy Accounting Branch will identify the case as suspended and will not pay assistance payments when a recertification is due and neither a HUD-93101-A nor a HUD-93114 is received from the mortgagee by the 45th day after the anniversary date.

A. Mortgagor Recertifies After Suspension. If the recertification is received by the mortgagee after assistance payments have been suspended, the mortgagee must submit Form HUD-93114, together with HUD-93101-A, requesting that the assistance payments be reinstated as an adjustment transaction Code 2 on the next regular month's billing Forms HUD-93102 and HUD-300.

   NOTE: The billing forms and all adjustment transaction documents (i.e., Forms HUD-93114, HUD-93101-A, HUD-93102 and HUD-300) should be submitted as one package to the Subsidy Accounting Branch for processing. The reason for the adjustment in Column 3 on Form HUD-300 should be noted as "Late mortgagor recertification".

   The reinstatement will be effective on the first payment month which occurs after the date of the mortgagee's receipt of Form HUD-93101 from the mortgagor.

   NOTE: No assistance will be paid for the period during which a recertification should have been received (i.e., 30 days after it was requested) and the date it was actually received.

B. Contract Suspended Due To Mortgagee's Failure To Meet "Reasonable Effort" Requirement. In situations where HUD determines that the action taken by the mortgagee when contacting the mortgagor with regard to the recertification fails to meet the "reasonable effort" requirement (as stated in Paragraph 10-7B) and the assistance was subsequently suspended, the mortgagee must go back to that mortgagor and allow that mortgagor to recertify as long as he/she recertifies within 30 days of this second written request. The mortgagee must:

   1. secure recertification and complete verification;

NOTE: If more than one recertification was missed, for each missed recertification the mortgagee must reconstruct family income as accurately as possible for each anniversary date.

2. make any resulting change in assistance effective retroactive to the period for each recertification in question; and

3. if the recertification results in overpaid assistance, careful consideration must be given in order to choose a method which will allow for the recovery of overpaid assistance that may have accumulated without creating an undue hardship on the mortgagor.

   However, the mortgagee must immediately refund the total overpaid assistance amount to HUD. The overpaid amount should be included as an adjustment transaction on the next regular month's billing which should be accompanied by applicable Forms HUD-93114 (requesting reinstatement) and HUD-93101-A (recertifying income). The periods of overpayment (i.e., month and year) must be included in Column 3 of Form HUD-300. The reason for adjustment should be noted as "Late Recertification Request".

   NOTE: When assistance has been suspended and a request for reinstatement is retroactive, the current monthly billing amount should be treated as a Code 1 transaction on Form HUD-300. The retroactive billing amount should be treated as a Code 2 adjustment transaction on Form HUD-300.

   Both the reason for adjustment (i.e., late mortgagor recertification, recertification request; suspended in error, etc.) and the beginning and ending effective period (month and year) must be included in Column 3 of Form HUD-300. Failure to provide this information or failure to attach the required Forms HUD 93101-A and HUD-93114, as appropriate, will result in non-payment of the adjustment amount.

   Disallowed adjustment amounts due to lack of documentation must be included on the next regular month's billing. The HUD Headquarters OFA's Subsidy Accounting Branch will process only one Form HUD-93102 for each billing period.

10-9 DETERMINING INCOME.

A. Gross Annual Income (24 CFR 235.5(d)). Assistance is based on gross income which is made up of the total income (prior to any adjustments, taxes or other deductions) received by all members of the mortgagor's household.

   NOTE: Members of the mortgagor's "family or household" are considered to be all persons living in the mortgaged property who are related to the mortgagor by blood, marriage or operation of law.

   1. Income Sources Included. For the purposes of annual or other required recertifications which project income, the following sources must be included:

a. wages, child support, alimony, and rental income;
b. Social Security or welfare benefits;
c. retirement benefits, military and veterans' usability benefits;
d. unemployment benefits;
e. interest and dividend payments;
f. lottery winnings paid over extended periods; and
g. insurance benefits paid on a fixed schedule.

2. Income Sources Excluded. Income from the following sources must NOT be included:

a. lump sum insurance benefits;
b. lump sum winnings from a lottery;
c. hospital or other medical insurance benefits;
d. bonuses and/or overtime (if they DO NOT represent a pattern of annual payments over a period of time);
e. food stamps;
f. scholarships; or
g. any unusual income such as payments made to Vietnam Veterans from the Agent Orange Settlement Fund.

NOTE: The Agent Orange Compensation Exclusion Act (Public Law 101-201) requires that none of the payments made to Vietnam Veterans from the Agent Orange Settlement Fund be considered income for the purpose of determining eligibility for or the amount of benefits under any Federal or federally assisted program. This requirement must be adhered to when processing Section 235 Annual or other required Recertifications of Family Income and Composition.

h. any temporary income such as income of a wage earner from temporary employment that has been discontinued at the time recertification is taking place.

B. Income Requiring Special Consideration. The mortgagee is to use the mortgagor's verified current income or the mortgagor's stated "expected income", WHICHEVER IS HIGHER.

"Expected income" is different from income received over the past 12 months (or year-to-date income) in that if there has been a recent increase in the mortgagor's (and/or family member's) hourly wage or salary, that new hourly rate or salary would serve as the basis for projecting the "expected income" for the next 12-month period.

1. Overtime Pay. Overtime pay must be included in the total income if the employer verifies that overtime is currently being paid on a regular basis regardless of whether the employee states (or fails to state) at the time of verification that the overtime is expected to continue in the future. If there is a continuing record of overtime work, the only time the overtime income is to be excluded is when the employer verifies that overtime will be discontinued.

2. Self-Employment. Include in gross income all income listed on Internal Revenue Service's (IRS) Form 1040. When calculating the income of self-employed mortgagors, the deductions set out in Schedule C, Profit (or Loss) from Business or Profession, must be recalculated for HUD purposes. Salary or wage distributions for the mortgagor or co-mortgagor, depletion or depreciation) are not deducted from the gross business income for HUD purposes.

   NOTE: For example, Schedule C is not the only form where self-employment income is claimed, farmers may have a Schedule F instead of a Schedule C. All sources of self-employment income must be included.

   a. Recalculate Business Income On IRS Form 1040. Mortgagees must recalculate the business income (Item 12 on IRS' Form 1040). If the recalculated income shows a loss, that loss cannot be used to offset other forms of income reported on Items 7 through 22 on IRS Form 1040.

   b. Item 12 on the mortgagor's IRS Form 1040 may reflect a negative amount in some cases. However, when the mortgagee recalculates the Schedule C as prescribed in Paragraph 2a above, it could result in a positive amount to be included in income. Elimination of the deductions for depletion and depreciation may, from HUD's perspective, result in a business profit.

3. Special-Purpose Payments. These are payments made to the mortgagor's household that would be discontinued if not spent for a specific purpose. Payments which are intended to defray specific expenses of an unusual nature and which are expended solely for those expenses should not be considered as income. Examples include, but are not necessarily limited to, the following:

   a. Medical Expenses. Funds provided by a charitable organization to defray medical expenses, to the extent to which they are actually spent to meet those expenses.

   b. Foster Children. Payments for the care of foster children who are not otherwise related to the mortgagor's household by blood, marriage, or operation of law.

      NOTE: Foster children are not considered members of the family. Therefore, no $300 adjustments to income are to be made because of their presence.

   c. VA Educational Benefits and/or Scholarships. VA educational benefits and/or the proceeds of scholarships are not considered income to the extent the benefits or proceeds are actually used for educational expenses (i.e., tuition, books, lab fees, etc.). Any excess income after deducting actual educational expenses must be included as income.

      NOTE: Costs of transportation to and from school or for cost of housing for living away from home to attend school are not considered educational expenses.

d. Payments In Kind. Items such as food stamps, meals, clothing, or transportation provided by the employer is not considered as income if used for that expressed purpose. However, cash reimbursement for any of these items is considered as income to the extent it continues when not spent to defray a specific expense.

e. Insurance Benefits.

(1) Health/Accident/Disability Insurance.

(a) Premiums Paid By Mortgagor. Benefits received from policies where the mortgagor is both the insured and the beneficiary are not to be considered income if the mortgagor paid the premiums.

(b) Premiums Not Paid By Mortgagor. If these premiums were paid by someone outside the mortgagor's household (such as an employer), the benefits would be considered as income.

(2) Other Types of Insurance. The benefits of other type insurance policies would be considered as income if the benefits are paid in two or more installments unless they meet the test of special purpose payments as described in Paragraph 10-9B3 above.

Regardless of the type or reason for payment, insurance benefits paid in a lump sum are not to be considered income. However, if the mortgagor chose to invest any or all of the money from this lump sum payment, all interest (or other gain) from this investment would be considered as income.

f. Earnings of Minors. Income of all family members within the mortgagor's household must be included in the family's total gross income which is used as a base for computing the assistance.

All income of all members of the family is included in gross family income. In arriving at the family's adjusted income, five percent of this total is subtracted before subtracting the earnings of minors. Note that only the earnings of minors are subtracted. Income of minors from sources other than earnings is not subtracted.

For example, income to a minor from a trust or an insurance policy is not earnings and is not subtracted. It is thus immaterial whether income other than earnings is paid to a minor or to an adult family member for the benefit of the minor. In neither case would it be deducted in arriving at adjusted income.

g. Military Pay and Allowances. All cash payments to a member of the armed forces are considered as income, regardless of the reason for the payment, unless the payment is made only once and for a special purpose, such as a lump sum re-enlistment bonus.

Many military personnel may exercise a degree of choice in some areas of compensation. For example, they may choose between eating in a government cafeteria without charge or receiving an allowance for rations in cash and paying for any meals consumed in the cafeteria. If the allowance is received in cash, it is income. Otherwise, it is not.

h. Reimbursement for Expenses. If the family member's employment requires spending considerable time away from home on a regular basis and the employer provides reimbursement for the unusual living expenses incurred as a result, the reimbursement is not normally considered to be income.

Exceptions to this rule:

(1) If the reimbursement is paid for periods other than when the employee is actually away from home, the entire reimbursement is considered as income regardless of whether the employee accounts to the employer for actual expenses and the reimbursement is fixed on a daily basis (or some other standard) and is inadequate to cover all normal living expenses; and

(2) if the employee accounts to the employer for expenses, and the expenses equal or exceed the reimbursement, the reimbursement is not considered income. However, if the reimbursement exceeds the expenses, the excess reimbursement is considered income.

NOTE: Where expenses exceed the reimbursement, the amount not covered by the reimbursement cannot be deducted from the family's gross annual income.

10-10 VERIFYING INCOME. To calculate assistance payments, the mortgagor's verified current income, or the reported expected income, WHICHEVER IS HIGHER, must be used. The mortgagor's option to recertify is his/her only protection when there is a loss of income. When mortgagees fail to use the highest income reported, overpaid assistance results.

A. Third-party Verification Required. Third-party verification of the mortgagor's statements, similar to that required when a mortgage is originated, is required at the time of each recertification.

EXCEPTION: Third-party verifications are not required for self-employed persons.

B. Verification Not Available. Where third-party verification cannot be obtained and/or the mortgagor's statements cannot be reconciled with the verification, the local HUD Field Office having jurisdiction over the mortgaged property should be contacted for assistance in establishing the income.

C. Unacceptable Forms Of Verification. Examples of unacceptable forms of verification include, but are not necessarily limited to, the following:

1. Federal income tax returns or Forms W-2's (withholding tax forms), except for self-employed persons and where HUD has reviewed the case and has established that this would be the best information available;

2. where verifications have passed through the hands of the mortgagor and/or the person whose income is being verified; and/or

3. checks and/or pay stubs which show only the net amount of the check.

D. Acceptable Forms Of Verification. The most difficult part of income verification is determining that all sources of earned income have been reported by all members of the mortgagor's household.

1. Listed below, ranked in the order of preference, are acceptable forms of verification for earned income.

a. Pay Stubs and Checks. If these show gross income as well as net, these documents are considered to be the most reliable source of accurate information concerning recent income.

(1) Documentation for Preceding Six months Is To Be Requested. The most recent information available is to be used for recertifications. Salary information requested should include at least any pay stubs and/or copies of check(s) received by any household member just prior to the mortgagee's request as well as any checks or income received within at least the last six-month period.

(2) Each Source of Income Must be Documented. Care should be taken to assure that the mortgagor provides information with respect to each source of income. If a source is missing, one of the other forms of verification should be used with respect to that source.

b. HUD Form 92004-G Request for Verification of Employment. This form of verification is acceptable (or similar forms designed by the mortgagee to elicit the same information) only if it is delivered directly to and from the employer without passing through the hands of the mortgagor and/or the employee whose salary is being verified.

NOTE: If the HUD form is used, it should be modified to add, in the remarks section, a request for information about anticipated wage increases.

c. Telephone Verification. While some employers may be reluctant to provide income information by telephone, they will usually verify that the mortgagor is or is not employed with that company. In using the telephone:

(1) Contact Designated Personnel. It should be established by the mortgagee that the person spoken to is either:

(a) the mortgagor's supervisor; or
(b) an employee of that company who has been authorized by that company to give out employment verifications.

(2) Maintain Mortgagor's Privacy. The detailed reason for the call (i.e., to determine if the employee remains eligible for Sections 235 subsidy) should not be disclosed to any parties other than those described in the preceding paragraph.

(3) Document Telephone Call. Each telephone call should be fully documented as follows:

(a) the date;
(b) the time;
(c) the parties of the conversation; and
(d) the information provided by the employer.

d. Use of Standard Benefit Scales. Some localities have established that a family with a given composition receiving public assistance or unemployment compensation as its sole source of income must receive assistance in a set amount.

NOTE: Where this is the case, the income taken from the current schedule of benefits established by that source may be accepted as the family's income without individual verification of the benefits.

e. Use of Public Housing Authority's Standard Minimum Income Scales. Some Public Housing Authorities have established schedules of minimum incomes for various occupations in their areas, especially those with fluctuating, seasonal, and irregular patterns. These schedules are based on experience indicating that workers in each of the covered occupations can be expected to earn at least a minimum each year under normal working conditions.

(1) Income Reported At Or Above Minimum Scale. If the mortgagor has stated an income at or above the minimum found in these tables, the mortgagor's statement may be accepted without further verification.

(2) Income Reported At Less Than Minimum Scale. Where the mortgagor can provide convincing evidence that a lower income is accurate, the lower figure may be used.

2. Income from Self-Employment. As noted in Paragraph 10-9 with respect to self-employment, the income of self-employed persons must often be adjusted to avoid reducing it for non-cash expenditures such as depletion and depreciation. Supporting documentation (such as statements showing deposits consistent with claimed income) should be obtained from self-employed mortgagors.

a. Audited Profit and Loss Statements. A copy of the latest audited Profit and Loss Statement may be requested from the mortgagor.

NOTE: Due to the expense involved, mortgagors are not to be required to obtain an audited Profit and Loss Statement for the sole purpose of the mortgagee using it for income verification to determine Section 235 subsidy. However, should a recent audited Profit and Loss Statement exist for other purposes, the mortgagee may require that a copy be provided for income verification.

b. Unaudited Profit and Loss Statements. These are acceptable only if prepared by someone other than the mortgagor. Even then, they are of questionable validity as they are based solely on information provided to the preparer by the mortgagor. Any apparent discrepancy should be followed up thoroughly.

c. Financial Statements. A financial statement is a picture of the financial condition of the business at a specific time. It must be noted that a financial statement does not provide information about the income of the mortgagor, but only serves as a basis for determining that the business can afford to pay the mortgagor what is claimed as earned income.

NOTE: When the self-employed mortgagor is a principal owner of a corporation, that person's income is generally a combination of salary and dividends on investment in the corporation.

In these situations, the corporation's undistributed earnings should also be considered as income of the mortgagor to the extent of that person's ownership.

3. Unearned Income. Income from sources other than employment or self-employment must also be verified, and there are probably as many ways to do this as there are different sources of income. It is left to mortgagees to determine the best source of information in each case.

E. Verification Not Required. Certain types of income need not be verified.

1. Minors. Incomes of minors (persons living in the household who are under the age of 21) need not be verified. Only the income of "adult" members of the family need be verified. "Adult" for this purpose is any mortgagor and spouse of any mortgagor (regardless of age) and any other person related to any mortgagor by blood, marriage, or operation of law who occupies the mortgaged property and is 21 years old or older.

2. Latest Verification Performed Within Last Six Months. On mortgages insured prior to January 5, 1976, income which has been verified within the six months preceding the mortgagee's receipt of the signed Form HUD-93101 need not be verified if:

a. the family members report no change in employers; and
b. the income reported is either the same as that verified earlier or reflects a change which was expected and/or verified as a part of the previous verification.

3. Disqualifying Income. If either the current or expected income as reported by the mortgagor is adequate to enable the mortgagor to make the full monthly payment with 20 or 28 percent of income (depending on when the mortgage was insured), no further verification is necessary before suspending the assistance payments contract.

10-11 FAMILY COMPOSITION. Family composition need not be verified, but, all changes in the status of adult and family members must be questioned.

A. Separations. Where a mortgagor has left the property due to a separation, the remaining mortgagor may certify as to the composition of the remaining portion of the household.

B. Death. Normally, if there is no owner-mortgagor occupying the property, assistance cannot be paid. In the event of the death of one or more mortgagors, there could be a question as to both the title to the property and the mortgage obligation. The status may be even more uncertain if the only survivors are minor children.

1. Obtaining Clear Title/Disposing of Property. Where the only survivors are minor children, it may be necessary to initiate court proceedings in order to have a guardian appointed for the purpose of clearing and/or disposing of the title of the property.

2. Commencement of Assistance Payments. In the event of a death or separation leaving no owner-mortgagor, the mortgagee may begin billing for assistance immediately as though there had been an assumption at the time of the death or separation, provided the mortgagee can identify an individual who meets all of the following conditions:

   a. is a member of the surviving family (even though he/or she may not have qualified as a “family” member for assistance purposes earlier);
   b. will probably become the holder of title (either in his/her own name or in trust for one or more of the survivors);
   c. will assume the mortgage obligation in the same capacity;
   d. will occupy the mortgaged property with the survivors; and
   e. will qualify for assistance within the limits prescribed for initial eligibility (see Paragraph 10-22).

3. Establishing Eligibility. It must be recognized that to determine who will most likely inherit or be appointed as a guardian or trustee on behalf of the survivors before the estate is settled can only be based on assumptions. Once the mortgagee can reasonably determine who that individual will be and whether the conditions in Paragraph 10-11B2 have been met, eligibility must be established.

   NOTE: Establishing eligibility need not be delayed until the disposition of title has been completed and the mortgage obligation is formally assumed by the new mortgagor.

   Should it become evident that those assumptions are incorrect, the assistance payments contract must be suspended effective with the date of death or separation and any assistance paid in the interim must be refunded to HUD.

10-12 COMPUTING ASSISTANCE (24 CFR 235.335). The maximum monthly assistance that can be paid by HUD is the lesser amount computed under two formulas, commonly referred to as "Formula One" and "Formula Two". Instructions for these computations are given on Form HUD-93101-A under Section A and B.

A. Formula One. The "Formula One" assistance payment is the difference between the full monthly mortgage payment (i.e., principal, interest, and all escrowed items) due under the mortgage and either 20 or 28 percent of the mortgagor's adjusted monthly income. (See Section A and B of the Form 93101-A to determine how the assistance payment is computed.)

   NOTE: The 20 percent calculation applies to mortgages pursuant to a firm commitment issued on or before October 26, 1984. The 28 percent calculation applies to mortgages insured pursuant to a firm commitment issued on or after October 27, 1984.

   The "Formula One" payment must be recomputed whenever there is a change in the total payment or when there is a change in the income or family composition reflected in a recertification.

B. Formula Two. The "Formula Two" assistance payment is the difference between the actual monthly payment to principal, interest, and the mortgage insurance premium (MIP) under the mortgage and the monthly payment to principal and interest (without the MIP) that the mortgagor would have to pay if the mortgage bore interest at some lower rate. Those lower rates vary, depending on when the mortgage was insured, as indicated below:

Date of Closing Note Rate	Note Rate	Interest Rate to Compute Second Element of Formula Two	P&I Factor per $1,000 Term
8/9/68-1/4/76	No difference	1.00%	$3.22
1/5/76-3/6/78	No difference	5.00%	$5.37
3/7/78-3/8/81	No difference	4.00%	$4.78
3/9/81 and later	13.50% or lower	4.00%	$4.78
	13.75-14.00%	4.75%	$5.22
	14.25-14.50%	5. 50%	$5.68
	15.00%	6.00%	$6.00
	15.50%	6.75%	$6.49
	16.00%	7.25%	$6.83
	16.50%	8.0%	$7.34
	17.50%	8.00%	$7.34

10-13 INTERIM ASSISTANCE PAYMENTS. When it is impossible to complete the verification of all or part of the family's income at the time of the effective date of a change in the assistance payment, the assistance payment should be temporarily adjusted, if appropriate, based upon information provided by the mortgagor on Form HUD-93101 until all income can be

verified or until the local HUD Field Office makes a decision as to the amount of assistance to be paid based on available documentation.

A. Basis For Computing Interim Assistance Payments. Interim changes in assistance payments should be based on the highest family income figure which can be developed from any source (or sources) until the mortgagor's family income can be verified or a decision is made by the local HUD Field Office.

B. Affect On Payments. Interim changes in assistance payments should:

1. not result in overpayment of subsidy unless the mortgagor understates income;
2. result in the Formula One assistance (after verification) being equal to or greater than the interim adjustment; and
3. not affect Formula Two calculations as the Formula Two are not income related.

C. HUD Assistance Requested. Whenever acceptable verifications cannot be obtained, the local HUD Field Office should be asked to make a decision as to the total family income to be used to determine the amount of assistance to be paid on behalf of the mortgagor.

D. Documentation Needed. Requests to local HUD Field Offices for assistance in determining correct assistance should include:

1. Form HUD-93101, Recertification of Family Income and Composition, Section 235(b);
2. all income verifications received to date that pertain to this recertification, including summaries of any received verbally;
3. copies of any correspondence related to the recertification or verification of income.
4. a summary of any attempted verifications or reconciliation of differences may not have been made clear by the basic documentation; explain the problem encountered; and
5. the names, addresses and telephone numbers of any income source identified by or for any family member.

10-14 FIRST MONTHLY ASSISTANCE PAYMENT. Where mortgage closings do not take place on the first day of a month, the first assistance payment on a new mortgage will normally be smaller or larger than subsequent assistance payments (depending on how interest for the first partial month is collected from the mortgagor).

If the interest is collected at closing or as a separate payment of interest only on the first of the month following closing, the initial assistance payment will be smaller. If the interest is collected as a part of the first full monthly installment, both that payment and the assistance payment will be larger.

In calculating this first assistance payment, the mortgagee's basic calculations are the same. Both "Formula One" and "Formula Two" assistance payments are to be calculated, but the mortgagor's income and the full monthly payment used in "Formula One" and the monthly payments to principal, interest and MIP on the actual mortgage and to principal and interest on a

mortgage at the appropriate interest rate used in "Formula Two" must be adjusted to reflect the number of days for which interest was actually collected.

10-15 ASSISTANCE PAYMENTS ADJUSTMENTS (24 CFR 235.360). Most adjustments take place as a result of changes in income or family composition reflected in a recertification or due to an increase in the full monthly payment required by the mortgage.

A. Adjustments. Assistance payment adjustments will be made either retroactively or prospectively as described below.

1. Retroactively. Assistance payments may be adjusted retroactively (i.e., adjusted back to the date the change should have taken effect). Payments may be adjusted retroactively under the following circumstances:

a. to correct errors or to include previously unreported income (i.e., $50.00 increases);
b. to reinstate a suspended assistance payments contract when:

(1) there is an assumption and the assumptor is found eligible for assistance; or
(2) a foreclosure action is withdrawn;

c. when an "interim" assistance payment was put into effect in accordance with Paragraph 10-13; and
d. when directed to do so by HUD.

2. Prospectively. Most assistance payments will be adjusted prospectively (i.e., adjustments made effective within 30 days after the processing of recent or anticipated changes when reported by the mortgagor as required). These changes may be due to, but not necessarily limited to, the following:

a. changes in income or family composition reflected in a recertification; or
b. an increase in the full monthly payment required under the mortgage.

B. Computation Changes. "Formula Two" assistance payments change every twelve months (on the anniversary of the beginning of amortization) at the time MIP changes for the coming year.

NOTE: This adjustment must be made even when the mortgagee has established an arbitrary anniversary date for the purpose of processing recertifications.

C. Effective Dates Of Changes (24 CFR 235. 360). The effective date of payment change recorded in Block 19 on Form HUD-93101-A must be in accordance with the following schedule:

Action Requiring Change	Effective Date
Annual recertification if mortgagor's share of payment increases	First day of first or second month after receipt of Form HUD 93101 at the mortgagee's discretion

Action Requiring Change	Effective Date
Annual recertification if mortgagor's share of payment decreases	THE first day of the first month after receipt of Form HUD-93101
Reported increase in income	THE first day of the first month after the effective date of income increase
Reported decrease in income	The first day of the first month after receipt of Form HUD-93101
Change in total monthly payment required under the mortgage	The date of the monthly payment amount change
Change in "Formula Two" assistance due to an MIP change	The anniversary date of the beginning of amortization

10-16 ADVISING MORTGAGORS OF CHANGES. The mortgagee must notify the mortgagor of changes in assistance payments no less than 10 days before the due date of the first payment affected by the change.

A. Required Advance Notice Not Given. Any time there is an increase in the mortgagor's share of the payment and the required 10-day advance notice cannot be given to the mortgagor, the mortgagee must arrange a schedule that is acceptable to both parties (must be one that is realistic and does not put an undue hardship on the mortgagor) for collecting any additional amounts that may become due before the 10-day advance notice period can be given.

   NOTE: Payment schedule arrangements made between the mortgagor and the mortgagee should not result in overpaid assistance. The amount of assistance requested from HUD on Form HUD-93102 should be reduced effective on the effective date of payment change in accordance with the schedule provided in Paragraph 10-15C, regardless of when the mortgagee collects the higher mortgagor's share of the monthly payment amount.

B. Written Notice To Mortgagor. The notice to the mortgagor should include, but not necessarily be limited to, the following information:

   1. the total monthly mortgage payment, excluding items not required by the mortgage (such as premiums for life and/or disability insurance);
   2. HUD's share of the mortgage payment and whether it was computed under "Formula One" or "Formula Two";
   3. the mortgagor's share of that payment;
   4. any additional amounts that must be paid by the mortgagor in connection with the mortgage payment which was excluded in Item 1 above (such as premiums for life and/or disability insurance);
   5. the monthly gross income used to calculate the assistance payment for the purpose of providing a bench mark to help the mortgagor know when to report increases of $50 or more per month;
   6. the due date of the first payment due from the mortgagor which reflects the increase.

10-17 RETENTION OF DOCUMENTATION (24 CFR 235.365). Form HUD-93114 and all other pertinent records must be in the mortgagor's case file for the life of the insured mortgage plus three years. In the event the mortgage is transferred to another mortgagee or servicer, and/or assigned to HUD, this documentation must remain a part of the mortgagor's case file and must be conveyed to the new mortgagee, servicer, and/or HUD which shall retain the entire case file for the life of the mortgage plus [seven] years. In addition, a mortgagee must transfer documentation noting the Borrower's preferred method of communicating or language preference in the event the mortgage is transferred to another mortgagee or servicer.

10-18 SUSPENSION OF ASSISTANCE PAYMENTS (24 CFR 235. 375).

A. Events Which Require Suspension. Events listed below (and are also given under Item 15 of Form HUD-93114 require the suspension of assistance payments. Effective dates are also given as to when each is to be suspended.

1. When the mortgagor or cooperative member ceases to meet the occupancy criteria for continued assistance;

   Effective Date: the first day of the month following the date the mortgagor or cooperative member ceased to meet the criteria;

2. The mortgagee determines that the mortgagor or cooperative member ceases to qualify for assistance payments because of income increases enabling the mortgagor or cooperative member to pay the full monthly payments using 20 or 28 percent (whichever applies) of the family income.

   Effective Date: the date that the mortgagor received the increase in family income which enabled payment of the full monthly mortgage payment with 20 or 28 percent of the adjusted gross family income;

3. The required recertification of occupancy, employment, income and family composition cannot be obtained from the mortgagor.

   Effective Date: For annual recertifications, the assistance payment contract must be suspended if the recertification Form HUD-93101 has not been received 30 days after the anniversary date, or the disclosure and verification of the Social Security numbers are not provided. For other required recertifications, the contract is suspended as of the first day of the month following expiration of the 30-day period given the mortgagor for recertification.

   NOTE: Assistance payments are not to be suspended when a mortgagor requests recertification due to a reduction in income (i.e., optional recertification), and then fails to recertify.

4. Mortgage obligation or cooperative membership is assumed by a party before eligibility has been established.

Effective Date: The first day of the month following the date on which the seller fails to meet the occupancy criteria as set out in paragraph, or the assumptor assumes the mortgage or cooperative membership, whichever is earlier.

5. Foreclosure is initiated.

   Effective date: The first day of the month following the date the first legal action required by state law is taken by the mortgagee's attorney to foreclose on the mortgage.

B. Suspension Notification Required. A notice shall be sent to the mortgagor advising of the suspension when:

1. the suspension of assistance payments is the result of a mortgagor being able to make the full monthly payment using the appropriate 20 or 28 percent of family income;
2. the mortgagor fails to submit a required recertification; or
3. the mortgagor fails to meet the disclosure and verification requirements for Social Security numbers in connection with a recertification.

C. Content Of Suspension Notice. The notice to the mortgagor must include the following:

1. the date of the suspension;
2. the reason for suspension (as stated in Paragraph 10-18A);
3. the mortgagor's total required monthly mortgage payment;
4. a statement advising that for a period of 3 years immediately following the suspension, assistance payments may be reinstated at any time within that 3-year period if:

   a. circumstances occur which would eliminate the reason for the suspension; and
   b. provided that another event (listed in Paragraph 10-18A) has not taken place which would in itself require that the assistance payment contract continue to be suspended.

D. Reinstatement Effective Dates. A suspended assistance payment contract shall be reinstatement as follows:

1. Suspension Due To Mortgagor's Non-occupancy Status. Assistance payments may be reinstated effective with the first monthly billing after the mortgagee receives Form HUD-93101 notification that the mortgagor meets the occupancy requirement.

2. Suspension Due to Over-Income Mortgagor. Assistance payments may be reinstated effective the first day of the month after the mortgagee receives Form HUD-93101 notification that the mortgagor is no longer "over income" and meets all other continued eligibility criteria.

NOTE: Reinstatement may be as a result of a reduction in the mortgagor's family income and/or due to an increase in the total monthly mortgage payment (such as an increase in amount being escrowed).

3. Suspension Due To Mortgagor's Failure to Recertify. Assistance payments may be reinstated effective the first day of the month after the mortgagee receives the required Form HUD-93101.

4. Suspension Due To Mortgagor's Failure to Disclose and Verify Social Security Numbers (24 CFR 235.375(b)(4)). Assistance payments may be reinstated effective the first day of the month after the mortgagee receives the social security number information.

5. Suspension Due To Initiation of Foreclosure. Upon the withdrawal of foreclosure action, assistance payments may be reinstated retroactively to the date of suspension provided that, during the period the assistance payments were suspended, the mortgagor continued to meet all other criteria for receiving assistance payments.

   a. Negotiation of Reinstatement Terms. The terms of reinstatement of the mortgage (i.e., whether the delinquency is to be paid in a lump sum, or additional sums are to be paid each month until the mortgage is current etc. ,) may be negotiated between the mortgagee and the mortgagor. However, the terms agreed upon must be realistic and may not affect the monthly mortgage payment on which the Formula One assistance payment is based.

   b. Reimbursement of Foreclosure Costs. Mortgagee retains the right to be reimbursed by the mortgagor for any costs incurred with respect to the withdrawn foreclosure action. However, these costs must be kept separate and apart from any Section 235 assistance. These costs may not be added to the monthly mortgage payment used to calculate the assistance payments and may not be billed to HUD as a separate item.

10-19 TERMINATION OF ASSISTANCE PAYMENT CONTRACT (24 CFR 235.375).

A. Events Which Require Termination. Events are listed below (and also given under Item 16 of HUD-93114) which require the termination of the assistance payment contract:

1. when the contract of mortgage insurance is terminated;

   EXCEPTION: The assistance payment contract is not terminated because HUD accepts an assignment of the mortgage.

2. the mortgage is assumed by a mortgagor or cooperative member who is not eligible for assistance; or
3. the assistance payment contract has been properly suspended for three consecutive years without the subsidy being reinstated within that three-year period of suspension; or

4. when the assistance payment contract for Section 246 10-year mortgages terminate unless extended by the Secretary.

B. Termination Effective Dates. Assistance payment contracts terminated for the events cited in the preceding paragraph shall be made effective the first day of the month following the date of the event which requires the termination of the contract.

C. Contracts Terminated In Error. Where the assistance payment contract is terminated in error, the mortgagee shall reinstate the contract immediately upon discovering the error. Form HUD-93114 must be submitted with the box checked under Item 17(1). (Item 17(1) denotes "Terminated in Error" as the reason for the reinstatement.) Documentation of the error is to be retained in the mortgagor's case file for the life of the mortgage.

NOTE: Once a Section 235 assistance payment contract has been properly terminated it may not be reinstated.

10-20 ESCROW ACCOUNTS. Basically escrow accounts for Section 235 mortgages are serviced the same as escrow accounts for other insured mortgages (i.e., in accordance with procedures discussed in Chapter 2). However, certain differences will be encountered. Mortgagees must determine which escrow items and/or what portion of the premium for an acceptable escrow item may be included in the total monthly mortgage payment prior to computing the amount of subsidy the mortgagor is entitled to under the Section 235 program. Guidance for making this determination is as follows:

A. Escrow Items Which May Be Included In Assistance Computations. Only certain items required under the mortgage may be included in the assistance computations. The escrow items that are acceptable, and the guidelines for determining the acceptable portion of the premium for that escrow item (if the entire amount cannot be included) are listed below:

1. Hazard Insurance. Only the cost of either the standard fire and extended coverage or basic homeowner's policy may be included in the assistance calculations. If a basic homeowner's policy is used, the mortgagee must be sure that any premiums for other items, such as cars, boats or other properties are not included in the assistance calculations. If the cost of the basic homeowner's policy appears excessive, the mortgagee must contact the agent and establish the cost of a standard fire and extended coverage policy and use the lesser of the two.

   NOTE: Do not include disability or life insurance premiums.

2. Flood Insurance. The entire premium may be included in the computation if the insurance is required by HUD or the mortgagee.

3. Taxes. The entire amount for taxes and special assessments which are levied by a government body may be included in the assistance calculations. Caution, specified assessments may be payable over several tax years. Only the prorated portion due for a specific tax year may be included.

NOTE: Do not include ground rents, assessments by mortgagors' associations, and special assessments levied by persons or private organizations.

B. Additional Disclosures Required Prior To Closing. Prior to closing, mortgagees must make mortgagors aware of the following:

1. the availability of any tax exemption (i.e., available to the mortgagor at the time of closing) for which the mortgagor may qualify;
2. that the responsibility for applying for the exemption is that of the mortgagor;
3. that their assistance payments will be computed based on the assumption that the mortgagor will be receiving the tax exemption for which they qualify;

C. Adjustment Of "Excessive" Surpluses And Shortages. Where an escrow analysis reveals an "excessive" surplus or an "excessive" shortage, a retroactive analysis must be performed.

NOTE: Definition of "Excessive" Surpluses and Shortages. An "excessive" surplus or shortage is defined as any amount that is greater or less than requirements by more than 15 percent of the actual disbursements from the account during the most recent full year. Before applying the 15 percent rule, the mortgagee may add one-sixth to the actual disbursements if it has chosen to maintain the surplus permitted in Chapter 2 of this Handbook.

D. When Retroactive Adjustments Are Required. Retroactive adjustments must be made at the following times:

1. When The First Analysis Is Performed After Settlement. If a shortage or surplus is discovered at this time, the shortage or surplus was probably caused by an incorrect amount being collected at settlement to establish the escrow account.

   NOTE: If the cause is due to an improper amount being collected at settlement, HUD would not be billed for any portion of the shortage or refunded any portion of the surplus.

2. When The Escrow Analysis Reveals an "excessive" surplus or shortage Allowed (as stated in the "NOTE" under Paragraph 10-20C).

3. When The Mortgage Is Being Assumed Or Paid In Full. Any necessary adjustment revealed by the required escrow analysis must be made prior to completion of either of these transactions. However, if this is not possible and/or the mortgagee later discovers an adjustment should have been made for underpaid assistance, make the appropriate refund to the mortgagor and bill HUD for the underpayment amount using an adjustment transaction Code 2 on the next regular month's billing Forms HUD-93102 and HUD-300. The specific reason for adjustment must be provided in Column 3.

For example, underestimated tax escrow. The beginning and ending effective periods of the adjustment (month and year) must be included in the reason for adjustment in Column 3 on Form HUD-300. A copy of the escrow analysis clearly depicting the cause of escrow shortage and the period must accompany Forms HUD-93102 and HUD-300.

4. When The First Escrow Analysis Of A Suspended Or Terminated Contract Is Performed.

5. When A Prospective Adjustment Would Reduce Assistance To Zero. (A retroactive adjustment is required to confirm the proper suspension of the assistance payments contract.)

E. Prospective Adjustments. Except as cited above, the mortgagee may exercise its option to make prospective adjustments.

F. Adjustment Procedure. Regardless of whether the adjustment is to be prospective or retroactive, the procedure is the same:

1. Adjust the "Formula One" Assistance Payment.

   a. Determine the exact amount needed in order to make proper disbursements as they become due;
   b. Determine if there were any reported changes (i.e., valid recertifications submitted to the mortgagee) in the mortgagor's household income during the period for which escrow is being collected;
   c. Recalculate the "Formula One" assistance payment for any period where the income differed;

2. Verify Accuracy of the "Formula Two" Assistance Payment. If there was an anniversary of amortization during the period, the "Formula Two" payment should have been adjusted at that time because of the change in MIP. If no adjustment was made, the "Formula Two" payment must be recomputed for the period after that anniversary.

   NOTE: A common error to look for when verifying Formula Two computations is the use of the wrong column in the Section 235 Factor Table Amortization Year - Formula Two when determining the anniversary factor. The first column on each page of this Factor Table is the factor for the first year (the origination factor) -- not the factor for the first recertification.

   For example, to compute the Formula Two assistance for the first annual recertification of a mortgage, the factor shown in the 2nd column would be the correct factor to use.

3. Compare the Two Results. For each period where the mortgagor's household income differed, the smaller of the recomputed "Formula One" assistance payment and the

correct "Formula Two" assistance payment is the amount that HUD should have been billed. Total the correct payments for the entire disbursement period for which money was being collected and compare these payment amounts with the amounts actually billed. The difference is the overpayment or underpayment of assistance.

10-21 BILLING FOR ASSISTANCE/HANDLING CHARGES. In order to receive Section 235 Original, Revised, Revised with Recapture or Revised, Recapture/10 Program assistance payments and handling charges, mortgagees must submit billings to HUD on a monthly basis using an original and one copy of Form HUD-93102, Mortgagee's Certification and Application for Assistance or Interest Reduction Payments. Both the original and the copy of the Form-HUD-93102 must contain original signatures of an authorized mortgagee official.

NOTE: Only one Form HUD-93102 per mortgage will be accepted for processing each month regardless of the mortgagee's servicing organization or billing procedures. Form HUD-93102 will be returned unprocessed if it is not accompanied by Form HUD-300 detailing as required all billing amounts included in Blocks 1, 2, 3 or 5 on Form HUD-93102.

A. Time Frame For Submitting Form HUD-93102. The Form HUD-93102 must be submitted to HUD (at the exact address shown on the back of the Form) no earlier than the 5th and no later than the 20th of each month in accordance with the instructions printed on the back of this Form.

   NOTE: Adjustment amounts determined necessary subsequent to submission of a Form HUD-93102 for a given month must be included on the next regular month's billing on the Form HUD-93102 line(s) provided for billing adjustment amounts. Duplicate Forms HUD-93102 submitted in the same month will be returned to the mortgagee unprocessed.

B. Submission/Completion Of HUD-93102.

   1. A Single Form HUD-93102 For The Total of All Section 235 Program Assistance Payment Requests. One billing must be submitted on Form HUD-93102 which includes billing amounts for all Section 235 assistance payments due for either the Original program in Block 1, the Revised program in Block 2, the Revised with Recapture program in Block 3, or the Revised Recapture/10 program in Block 5. The billing must be submitted with an original and one copy of Form HUD-93102. Both the original and the copy must contain original signatures of an authorized mortgagee official. Failure to submit the original and a copy will cause payment processing delays.

      NOTE: Mortgagees are no longer required to submit two separate Forms HUD-93102 for Section 235 assistance payments.

      The current Form HUD-93102, dated March 1988 must be used. Expired Forms HUD-93102 will be returned unprocessed.

      If a billing is resubmitted for any reason, it must be clearly marked "Resubmission" on its face.

Payments will be made to the servicer identified in HUD's records regardless of any directions to the contrary that may be inserted on the billing form. HUD will only send payments to the servicer of record. Form HUD-92080, Mortgage Record Change must be submitted in accordance with Chapter 6 to report a change of servicers.

2. Adjustments To The Regular Monthly Billing Amounts. The adjustment Line 2 in each Block 1, 2, 3 or 5 on Form HUD-93102 must be used to request retroactive payment of assistance for prior months.

   Line 1 in Blocks 1, 2, 3 or 5 should include the total amount of assistance for the current billing period only.

   Any billing amounts included on an adjustment Line 2 on Form HUD-93102 must be reflected as adjustment transactions using transaction Code 2 listed on Form HUD-300 should balance with the sum of the adjustment amounts on Lines 2 in Blocks 1, 2, 3 or 5 on Forms HUD-93102. Failure to verify that the adjustment amounts and the regular billing amounts on Form HUD-93102 balance with transaction code 1, regular billing and transaction Code 2, adjustment billing amounts on Form HUD-300 will cause payment processing delays.

3. Prior month billing amounts, adjustment transaction Codes 2. Prior month billing amounts must reflect the beginning and ending effective period (month and year) and an explanation of adjustment code in Column 3 as defined below. Any adjustment must also be supported by documentation requirements as defined below.

Reason for Adjustment	Adjustment Code	Documentation Required
Reinstatement of after suspension or termination in error	1	HUD-93114
Reinstatement after Borrower's failure to recertify timely	2*	HUD-93114, HUD-93101-A
Handling charges returned due to mortgagee' failure to meet contractual obligations	3	None
Suspension	4	HUD-93114
Termination	5	HUD-93114
Escrow Shortage	6	Escrow Analysis
Escrow Surplus	7	Escrow Analysis
Income Increase	8	HUD-93101-A, HUD-93101
Increase Decrease	9	HUD 93101-A, HUD-93101

NOTE: If more than one explanation of adjustment code applies to a single transaction, all applicable codes should be recorded in Column 3 on Form HUD-300 and all applicable documentation should be submitted.

Failure to identify the period of billing, the explanation of adjustment code or the documentation required, as defined above will cause non-payment of assistance for the affected cases. The mortgagee will have to re-bill non-paid cases on the next monthly billing. Payment may not be requested on a second bill for the same month.

Adjustment Code 2 must not be used in connection with the 7% interest penalty assessed due to fraud, misrepresentation and/or failure to meet contractual obligations. The 7% penalty must be submitted to HUD in accordance with Paragraph 10-29A.

C. Submission/Completion Of Form HUD-300. A Form HUD-300, Monthly Summary of Assistance Payments Due Under Sections 235(b), 235(j), or 235(i), or of Interest Reduction Payments Due Under Section 236, must accompany the completed Form HUD-93102.

1. Mortgagees using facsimile versions of Form HUD-300 must include on the modified version, all data required on the actual Form HUD-300.

2. Any transaction Code 1, current month's regular billing amount which is more or less than the amount billed in the prior month must be supported by appropriate documentation as follows:

Reason for Change	Documentation Required
Case reinstated	Form HUD-93114 and unless suspended in error, Forms HUD-93101-A and HUD-93101
Income increase or decrease	Form HUD-93101-A
Monthly mortgage payment amount changed due to escrow shortage or surplus	A copy of the escrow analysis clearly depicting what caused the required decrease or increase in escrow (e.g., taxes underestimated by $20 per month)

D. Review For Billing Accuracy. HUD will review billings for propriety, legality and correctness. When a billing is received that is not signed by an authorized mortgagee official, not accompanied by a Form HUD-300, and/or requests amounts which cannot be reconciled to FHA/HUD case detail provided on Form HUD-300, it will be returned to the mortgagee unpaid. No payment will be made until the mortgagee has submitted a corrected billing for that month.

When the amount billed for a case is more or less than the amount billed in the prior month, no payment will be made for the case unless the billing is accompanied by the

required Form HUD-93101-A, escrow analysis, or HUD mortgage recapture approval letter, whichever is applicable.

When a mortgagee determines than an income increase is not retroactive, as reflected by the "effective date of payment change" entered in Block C (7) on Form HUD-93101-A (i.e., the mortgagor's income increase was not received prior to the date that the mortgagee received the mortgagor's recertification), a copy of HUD-93101 must be attached to the Form HUD-93101-A for accounting office verification of the overpaid subsidy determination.

When the effective date of payment change reflects that an income decrease is retroactive, Form HUD-93101 must be attached to Form HUD-93101-A for verification of the underpayment determination (also see Paragraph 10-31).

No payment will be made on cases when non-retroactive subsidy decrease, or retroactive subsidy increase amounts as described above are not documented for verification by attachment of both Forms HUD-93101-A and HUD-93101 to the billing Form HUD-93102.

Subsidy increases due to escrow shortage will not be paid for any case unless:

1. the billing is accompanied by an escrow analysis; and
2. for each escrow item disbursed which was included in the subsidy amount calculation, copies of the canceled checks and invoices for accounting office verification of the shortage computation are attached.

E. Mortgagee Liability (24 CFR 235. 361(b)). Mortgagees are responsible for the accuracy of the billings and shall be held liable for fraud or false certification made on these billings (see Paragraph 10-28B). All billings must be signed by an authorized mortgagee official. Improper billings may result in the imposition of substantial financial penalties as the Program Fraud Civil Remedies Act applies to assistance payments.

NOTE: Mortgagee signing officials should give special attention to the meaning of the certification signed by authorized mortgagee officials on Form HUD-93102. The signing official is certifying, subject to the Program Fraud Civil Remedies Act, that:

1. the assistance payment amount requested for each case included in the bill has been correctly calculated both for the amounts and the periods claimed due in accordance with the provisions of this Handbook;
2. the bill does not include any amounts on behalf of mortgagors who have not complied with recertification requirements within the time limits specified in this Handbook, or in the manner set forth in 24 CFR 235. 350;
3. the bill does not include amounts on behalf of mortgagors not eligible for assistance in accordance with provisions set forth in 24 CFR 235 and as set forth in this Handbook;

4. no amount in the billing has been previously claimed in an outstanding bill, determined by HUD as not payable in a previous bill (i.e., determined not payable after a HUD review of required billing support documents) or paid in a previous bill;
5. supporting details, records and worksheets, together with a copy of the applicable billing are being held in the mortgagee's file; and
6. all aforementioned documents will be furnished or made available upon request of an authorized official of HUD or of the Comptroller General of the United States. A determination made upon review that certification to the above was false may result in the imposition of substantial financial penalties.

F. Receipt Of HUD's Payment. When a billing is submitted to HUD in accordance with outstanding instructions and within the time frame shown in Paragraph 10-21, payment should reach the mortgagee on or about the first day of the following month.

G. Monthly Billing. HUD will process payment for only one monthly billing form. Duplicate requests will be returned to the mortgagee unprocessed.

1. Monthly billings must be submitted on the current Form HUD-93102, dated March 1988 which may be obtained from the Government Printing Office. Obsolete Forms HUD-93102 will be returned unprocessed.

2. Recertifications of income which accompany the billing must be submitted on the current Form 93101-A, dated March 1990

3. Monthly billings should include:

   a. the assistance amount due for the current billing period on Line 1 of the appropriate Block 1, 2, 3 or 5; plus
   b. the assistance amount for any prior months the mortgagor was entitled to assistance but for which the assistance amount was not paid on a previously submitted Form HUD-93102 or included on an outstanding Form HUD-93102 on Line 2 of the appropriate Block 1, 2, 3 or 5; minus
   c. adjustments for overpaid amounts due HUD which is also on Line 2 of the appropriate Block 1, 2, 3 or 5;
   d. the net total of Line 1 and Line 2 on Line 3 of the appropriate Blocks 1, 2, 3 or 5; and
   e. the summary total from Line 3 of Blocks 1, 2 and 3 in Block 4.

   NOTE: Overpaid subsidy identified in response to HUD conducted mortgagee reviews requiring retroactive assistance payments reviews to be performed by mortgagees should not be included on the regular monthly billing. The required review must be completed within the time frame specified by HUD's (or its agent's) mortgagee review report. Overpayment must be submitted on a separate billing clearly denoted in large print at the top of the billing as a "Retroactive Review Billing".

   This billing must be accompanied by:

(1) a check made payable to HUD for the total overpayment amount; and
(2) a mortgagee review findings report which lists in columns, the following information:

(a) the name of each overpaid mortgagor:
(b) the FHA case number;
(c) the month and year of the beginning and ending period of overpaid subsidy (i.e., 3/86-5/88);
(d) the overpayment amount;
(e) an explanation of:

i. the cause of overpayment (using explanations of adjustment codes from Paragraph 10-21);
ii. the date of the event which resulted in the overpayment; and
iii. the effective period of the adjustment.

(f) the mortgagee's calculation of the overpayment amount; and
(g) attachments Forms HUD-93101-A, HUD-93101, HUD-93114 (one HUD-93114 to suspend the assistance payments and one to reinstate the assistance payments for retroactive suspensions resulting in overpayments) and/or escrow analyses as applicable to the explanation given for overpayment.

Copies of the check and Forms HUD-93102 and HUD-300 must also be sent to the appropriate HUD local Office that conducted the review.

H. Rounding Off Billing Amounts. At the option of the mortgagee, assistance may be billed in either of the following ways:

1. using the exact amount to which the mortgagor is entitled; or
2. using the amount arrived at after rounding off the exact amount to the nearest dollar (i.e., $. 01-$. 49 round down to zero; $0. 50-$. 99 round up to $1. 00).

Regardless of which method is used when billing HUD, mortgagees must be consistent and must use the same method (i.e., rounding off or using the exact amount) must be used for all amounts billed and used when crediting the individual mortgagor's account.

I. Billing Of Handling Charges. The mortgagee is entitled to a $3. 00 handling fee per month, per active Section 235 mortgage account.

10-22 ASSUMPTIONS. Assistance may be continued on behalf of an assumptor if that assumptor meets all qualifying requirements as of the day the mortgage assumption actually takes place (i.e., the day the mortgage is executed by the assumptor at closing).

A. Assistance Eligibility. The information on Form HUD-93100-4 must reflect that, on the day of closing, the assumptor's status qualified him/her for assistance based on the eligibility criteria for new mortgagors.

NOTE: The assumptor's household is not required (as the original mortgagor was) to have five or more members if the property has four or more bedrooms.

B. Additional Underwriting Requirements For Section 235 Assumptions. Assumptions of Section 235 mortgages are treated the same as those insured under any other section of the Act except for the following additional underwriting requirements:

1. where subsidy eligibility must be determined, the assistance application (Form HUD 93100-4) is to be reviewed before the credit application and, if assistance is to be authorized, the amount of assistance is to be used as income in the credit evaluation; and
2. if the firm commitment to insure the original mortgage or direct endorsement underwriter's credit approval was issued on or after May 27, 1981, the assumptor must sign, at closing, a note agreeing to pay any recapture of assistance that may be due HUD in order to satisfy this lien on the property (24 CFR 235.12). (See Chapter 11).

C. Mortgagee Responsibility. In addition to enforcing the [HUD's creditworthiness requirements], when the mortgagee becomes aware there has been or will be an assumption, the following action must be taken:

1. make the assumptor aware that he/she may be eligible for assistance;
2. prepare the necessary documents to determine eligibility for assistance (if assumptor wishes to be considered for assistance);
3. where the assumptor appears to be eligible for assistance, processing must be delayed until the local HUD Office has determined whether assistance can be approved in order that any assistance may be considered in the credit analysis;
4. make the assumptor aware of his/her recapture responsibilities (as listed below) if the firm commitment (or direct endorsement credit approval) was issued on or after May 27, 1981:

    a. there is an existing lien against the property in favor of HUD which shall remain there until satisfied;
    b. the recapture will become due immediately due if he/she does not:

        (1) qualify for assistance;
        (2) agree to accept the assistance for which he/she qualifies;
        (3) agree to execute a new note at closing;

    c. the recapture becomes due once the assumptor acquires title to the property. He/she will be held liable for the full amount required to satisfy HUD's lien on the property;

5. where appropriate, take the necessary action to obtain and prepare the required documentation and collect the amount due HUD to satisfy the recapture lien in accordance with Chapter 11; and
6. suspend the assistance payments contract if the mortgage is assumed before HUD approves the assumptor for assistance.

D. HUD Responsibility. In addition to enforcing [HUD's creditworthiness requirements], when HUD becomes aware that there has been or will be an assumption, it will:

1. determine the assumptor's eligibility for assistance;
2. if eligible, determine the initial amount of assistance for which the assumptor qualifies;
3. where appropriate, determine whether the assumptor's credit qualifies (if the case is not being processed by a direct endorsement mortgagee);
4. where appropriate, take the necessary action to:

   a. obtain and prepare the required documentation to determine the recapture amount due in order to satisfy the Section 235 lien;
   b. collect and deposit the amount due HUD;
   c. prepare the satisfaction of the recapture lien in accordance with instructions provided in Chapter 11;
   d. obtain the signatures of an authorized HUD official and get the satisfaction notarized; and
   e. forward the executed and notarized satisfaction to the mortgagee in accordance with instructions outlined in Chapter 11.

E. Cut-off/Start-up Dates For Assistance. Assistance should be cut off and started as follows:

1. When assumptors are approved before acquiring title:

   a. subsidy will cease on behalf of the seller effective the first day of the month after he/she moves out of the property;
   b. subsidy will begin on behalf of the approved assumptor effective the first day of the following month (i.e., the month after the seller moved out) PROVIDED the assumptor has moved into the property and has acquired title to the property by the effective date.

      NOTE: For this purpose, the acquisition date may be considered as the date the deed was recorded unless the mortgagor can demonstrate an earlier date.

   c. if the assumptor does not acquire title and occupy the property within 90 calendar days after the seller moves out, the assistance payments must be suspended.

      NOTE: Suspension will continue until the first day of the month after the assumptor has moved into the property and has acquired title to the property.

2. When assumptors are approved after acquisition of title:

a. subsidy will cease on behalf of the seller effective with the first day of the month after occupancy ends;
b. subsidy will begin on behalf of the assumptor effective (depending on the length of delay between the assumption and application for assistance) as follows:

(1) Delay of 90 Days or Less. If no more than 90 days elapse between title acquisition and application for assistance, payments shall be made retroactive to the first day of the month following title acquisition or occupancy of the property, whichever is later.

(2) Delays of More Than 90 Days. If more than 90 days elapse between title acquisition and application for assistance, payments shall be made effective from the first day of the month following application, PROVIDED the assumptor has title and occupies the property when the application is submitted and through the time that the application for assistance is approved.

10-23 DELINQUENCIES AND DEFAULTS. Mortgagees are expected to treat Section 235 mortgages in the same manner as other insured mortgages when they become delinquent. The mortgagor remains eligible for assistance until the mortgagee takes the first legal action required to initiate foreclosure or until some other event requires suspension or termination of the assistance payments contract.

A. Partial Payments. Assistance payments for periods when the mortgagor fails to make his/her share of the mortgage payment are not to be considered partial payments of the mortgagor's share of the full monthly mortgage amount. HUD assistance payments must be accepted regardless of the amount or the length of the delinquency. Before foreclosure may be started, all partial payments of the mortgagor's share must be applied toward the unpaid monthly installments, beginning with the earliest unpaid installment.

1. All assistance payments earned up to the time of the action to foreclose the mortgage must be billed for and applied to complete the monthly installments in the order in which they become due, e.g., to MIP, escrow, interest, and principal, beginning with the earliest unpaid installment. All unearned assistance payments should be applied as a reduction towards the amount billed HUD monthly on Form HUD-93102.

2. Reinstatement of the account by the mortgagor may not be delayed pending receipt of earned but unpaid assistance payments, and those payments must be billed for promptly when the mortgagee decides to accept reinstatement from the mortgagor.

NOTE: The rules governing return of partial payments in Paragraph 7-9 apply only to the mortgagor's share of the payment, not to the portion that is paid by HUD.

B. Forbearance. Assistance payments are not affected by forbearance agreements. They are treated as partial payments as described in the preceding paragraph. During these periods, however, the mortgagor must maintain eligibility for assistance (i.e., by continuing to occupy the property, providing required recertifications, etc.) and the mortgagee must continue to make adjustments to the amount of assistance for which the mortgagor is

entitled as though the mortgagor were making his/her portion of the monthly payments as required.

C. Special Forbearance. Assistance payments are not affected by special forbearance agreements. The special forbearance agreement:

1. shall be prepared in accordance with instructions outlined in Paragraph 8-4; and
2. shall include an additional provision recognizing that the assistance payments will continue to be adjusted as required under the Section 235 program;

D. Recasting. When a Section 235 mortgage is recast, the monthly payment due under the mortgage as recast becomes the base for calculating both "Formula One" and "Formula Two" assistance payments. The new principal amount after recasting is considered the original mortgage amount for amortization purposes and the new maturity date governs.

NOTE: MIP is not affected by recasting. Regardless of the new unpaid principal balance, the MIP continues to be calculated on the original scheduled unpaid balances.

10-24 ASSIGNMENT TO HUD. Assistance payments are not affected by an assignment of the mortgage to HUD. The assistance payment contract shall remain in effect up to the date the assignment is filed for record.

NOTE: The last assistance payments for which the mortgage should bill HUD are those for the month immediately preceding the month in which the mortgage is assigned.

10-25 PREPAYMENTS. Section 235 prepayments shall be as follows:

A. Partial. If partial prepayments have been applied to reduce future monthly payments (see Paragraph 5-3A2), both "Formula One" and "Formula Two" must be recalculated based on the revised payments.

B. In Full. The last assistance payment payable will be for the month the mortgage was paid in full presuming the mortgagor was in occupancy and was the legal owner on the first day of the month.

10-26 TRANSFER OF SERVICING. A transfer of servicing has the following affect on a Section 235 mortgage:

A. Assistance Eligibility. A mortgagor's eligibility for assistance will not be affected;

B. Recertifications. Annual recertification may be affected if:

1. the mortgagees involved in the transfer use different anniversary dates for recertification; and
2. the transfer would result in a lapse of more than 15 months between recertifications.

C. Additional Recertification Required. Where the situation described in Paragraph 10-26B occurs, the new mortgagee or servicer must require recertification twice in the first year after acquisition—one on the anniversary date used previously by the former mortgagee or servicer and the second one on the anniversary date that is being used by the new mortgagee or servicer.

D. Additional Notice To Mortgagor. Within 10 days of the transfer, the new mortgagee or servicer must:

1. advise the mortgagor of the transfer of the mortgage; and
2. provide the mortgagor with the new recertification schedule.

NOTE: The above disclosures may be included with the notice of servicing transfer required by Paragraph 6-11B or sent as a separate notice. However, if the above disclosure is sent as a part of the normal notice required by Paragraph 6-11B when a mortgage is transferred, the notice must be received by the mortgagor at least 10 days before the due date of the first payment to the new mortgagee or servicer.

E. Seller's/Purchaser's Servicing Responsibility. When an insured mortgage is sold, the purchasing mortgagee succeeds to all rights and becomes bound by all of the obligations of the selling mortgagee under the contract of mortgage insurance. Purchasing mortgagees should be aware that they will be held fully responsible to HUD financially for errors or omissions on the part of the selling mortgagee (or its agents), discovered after the transfer is reported, even though those errors or omissions may have taken place before it was reported to HUD.

10-27 POSSIBLE VIOLATIONS OF LAW OR REGULATIONS. Mortgagees are not expected to seek out evidence of wrongdoing on the part of mortgagors. Neither are they expected to extensively investigate allegations of wrongdoing brought to their attention. However, if a matter can be reasonably explained and/or resolved without extensive investigation, those facts should be used in computing assistance.

A. Mortgagee Responsibility.

1. General. The mortgagee's actions taken independently of instructions from HUD must always be exercised with due care, using the best information available including recent information reflected in the mortgagor's recertification, with its supporting verifying data.

2. Report Clues/Evidence of Mortgagor's Possible Wrongdoing. Possible clues and/or evidence of possible wrongdoing on the part of the mortgagor are to be forwarded to the local HUD Office for whatever action it deems appropriate. Until notified by the local HUD Office as to the action that will be taken (if any), the mortgagee should make the appropriate adjustments in assistance payments as instructed in Paragraph 10-27A1. Such clues and/or evidence may include, but are not limited to, the following:

a. a verification of income showing a date of employment or an increase in income much earlier than the date(s) certified to by the mortgagor which cannot be reconciled;
b. an application for another type of loan which shows a new spouse with income and/or other additional sources of income not shown in the recertification;
c. a disclosure, during negotiation of a repayment plan to cure a default, that the mortgagor or other family members have income not reported in the recertification;
d. a name change of the person or a different person signs the recertification for which no reason is known;
e. the receipt of allegations from either identified or anonymous sources containing enough specific information that would lead a person to believe that the recertification might contain false information; and

3. Information Not to be Reported. The mortgagee is charged with acting on its own initiative, basing its actions on the best information available (as outlined in Paragraph 10-27A1), and for documenting its files as to why a particular action was taken.

   The following are the examples of cases where the mortgagee shall take appropriate action including completion of all required retroactive recertifications and therefore, need not refer the case to HUD include, but not limited to, the following:

   a. where the mortgage was insured before January 5, 1976, and the mortgagor did not report an increase in income caused by a change in the source of income of any adult family member until the first normal recertification following the increase; and

      NOTE: Reason for Not Reporting to HUD—A $50 increase (or more) per month on these mortgages does not require an additional recertification. The assistance payments are adjusted at the time of the annual recertification effective as of the date the income increase occurred.

   b. where the mortgage was insured on or after January 5, 1976, and the mortgagor failed to notify the mortgagee of changes in total family income as noted in (a) above or the mortgagor did not report a $50 increase (or more) per month in adult family income until the annual recertification and overpaid assistance resulted.

      NOTE: Reason for Not Reporting to HUD—While the mortgagor is obligated to report a $50 increase (or more) per month in adult family income when they are received, it was reported at the time of the annual recertification. Once the mortgagee learns that such an increase did go into effect and went unreported by the mortgagor, the mortgagee is to take the necessary steps to determine when the $50 (or more) income increased per month. Assistance must then be recomputed and the overpaid assistance refunded to HUD.

B. HUD Field Office Responsibility. The HUD Field Office Manager will review any information sent in with respect to possible wrongdoing on the part of a mortgagor and will determine whether further investigation is warranted.

1. Where An Investigation Is Warranted. Where it is warranted, the Field Office Manager will take the necessary steps to refer a case to the appropriate HUD office for investigation.

2. Where An Investigation Is Not Warranted. Where administrative action is appropriate and former investigation is not warranted, the Field Office Manager will notify the mortgagee, in writing, of its decision. Written instructions will also be provided to the mortgagee as to how it should proceed with the adjustment of the assistance payments.

C. Office Of The HUD Inspector General. The actual conduct of investigations into possible fraud or referral of information to other agencies for further investigation and decisions relating to prosecution is the responsibility of the Inspector General. Mortgagees will not normally be advised of the progress of investigations and should make no assumptions as to their possible outcome and its impact on assistance payments.

10-28 CAUSES OF OVERPAID ASSISTANCE. Overpaid assistance exists anytime assistance is billed and paid for any amounts greater than those for which a mortgagee/mortgagor is entitled. Listed below are the most common situations which result in overpaid assistance:

A. Mortgagee's Failure To Meet Contractual Obligations. This occurs when the mortgagee fails to meet its obligations under the assistance payments contract as follows:

1. requesting a handling charge on cases when recertifications have not been requested timely;
2. failing to act in a timely manner when:

a. requesting a required recertification at the proper time;
b. recalculating assistance payments;
c. submitting Form HUD-93101-A and HUD-93114, as applicable;
d. adjusting subsidy payments when a recertification Form HUD-93101 is received containing information which requires suspension or adjustment of assistance payments billed;
e. retroactively calculating adjustments in assistance payments from the date of income increases and crediting overpaid assistance amounts to HUD when annual or interim recertifications reflect income increases;
f. timely requesting HUD to suspend assistance payments when mortgagors fail to respond to recertification requests within the specified time frame;
g. requesting reinstatements to be non-retroactive when suspensions were due to mortgagors failure to timely respond to certification requests; and/or
h. verifying recertified income in the manner set forth in Paragraph 10-10.

B. Mortgagee Fraud Or Misrepresentation. This occurs when:

1. mortgagees falsify certifications on monthly billing Form HUD-93102 submitted to HUD for assistance payments (see Paragraph 10-21E); or
2. any other fraud and/or misrepresentation in the Section 235 program.

C. Mortgagor Errors Or Omissions. The most common mortgagor errors are failures (for whatever reason) to:

1. report increases of adult family income of $50 or more per month when the mortgage was insured on or after January 5, 1976;
2. advise the mortgagee when the property is sold;
3. advise the mortgagee when he/she no longer meet occupancy or some other basic eligibility requirement; and/or
4. include an income source on a required recertification.

D. Mortgagor Fraud Or Misrepresentation. When a mortgagor fails to include income amounts or sources, and/or misrepresents occupancy or other eligibility data, on a recertification in an attempt to receive assistance for which he/she is not eligible.

10-29 REPAYMENT OF OVERPAID ASSISTANCE (24 CFR 235.361).

A. Overpayments Caused By The Mortgagee. The mortgagee must refund to HUD all overpaid assistance and all handling charges for each month during which there was an overpayment, plus interest computed at the rate of seven percent per annum on the entire amount from the date of the first overpayment when an overpayment results from the following circumstances:

1. fraud or misrepresentation on the part of the mortgagee; and/or
2. the mortgagee's failure to meet a contractual obligation, as described in Paragraph 10-28.

   The total overpayment amount must be credited on the next month's billing on Form HUD-93102 and should include return of handling charges paid for each period of overpayment for each case. Form HUD-300, Column 3, must reflect an explanation of the overpayment cause and the affected beginning and ending period (month and year).

   The 7% interest amount must be sent in a separate check made payable to HUD with an itemized listing of the 7% calculation and total interest due for each overpaid case. The check with the itemized listing should accompany the Form HUD-93102 billing.

B. Overpayment Caused By Error. When an overpayment is caused by an error on the part of the mortgagee or the mortgagor only the overpaid assistance need be refunded. The mortgagee shall refund the overpaid assistance by:

1. reimbursing HUD the total overpaid amount on the next month's billing (on Form HUD-93102); and

2. collecting the overpaid assistance from the mortgagor in a lump sum or in installments while exercising due caution not to cause a default by the manner of collection selected (24 CFR 235.361(c)).
3. Only as a last resort should the mortgagee apply a mortgage payment or payments to the recovery of the overpaid amount.

   NOTE: If the error which created the overpaid assistance was caused by the mortgagee then the mortgagee must repay HUD, however, HUD does not require the mortgagee to collect repayment from the mortgagor.

C. Mortgagor No Longer Obligated Under The Mortgage.

1. On cases where the mortgagor is no longer obligated under the mortgage, the mortgagee must send the mortgagor's last known address to the HUD Office having jurisdiction over the mortgage.

2. The Claims Collection Officer in the HUD Field Office is responsible for the collection activities.

10-30 CAUSES OF UNDERPAYMENTS. Listed below are circumstances which may result in underpayments and are the only causes for which a mortgagee may bill for underpaid assistance:

A. math errors;

B. using a wrong factor in calculating the "Formula Two" assistance payment;

C. underestimating escrow requirements; and/or

D. the mortgagee's failure to initiate an optional recertification after notification from a mortgagor of a reduction of income.

   NOTE: Failure of a mortgagor to request an optional recertification at the time of a reduction in the income of an adult family member is not a justification to bill for an underpayment at a later date.

10-31 COLLECTING UNDERPAID ASSISTANCE. The total underpayment amount may be added to the next month's billing (on Form HUD-93102). Retroactive billings for underpaid subsidy must be accompanied by Forms HUD-93101-A and 93101, Form HUD-93114 requesting reinstatement of a suspension in error, or an escrow analysis with support documents as defined in Paragraph 10-21D.

NOTE: Underpayment requests will not be paid when the required documentation does not accompany Form HUD-93102, or the explanation of adjustment is not provided on Form HUD-300 with documentation required as defined in Paragraph 10-21B3.

10-32 RECORDS MAINTENANCE (24 CFR 235.365 and 235.830). HUD Field Offices will periodically review mortgagee records to establish that assistance is being billed properly. These

reviews will normally cover recertifications, verifications, billings, suspensions, terminations, documentation, and escrow analysis. In addition to the records maintenance required on other types of mortgages, mortgagees must have complete records to support the amounts billed each month on each mortgage from the time of origination through termination of assistance payments (also see Paragraph 10-17), including recapture of assistance where applicable (see Chapter 11). These records must be adequate to support every dollar of assistance billed. Where records do not exist to substantiate the amount of assistance billed, assistance will be considered overpaid and must be refunded unless the mortgagee can reconstruct adequate records to support the payments. For each case, the records must include:

A. all initial applications (Forms HUD-93100-4) and required recertifications (Form HUD-93101 and 93101-A), with supporting verifications and other related documentation;

B. all optional recertifications that resulted in changes in assistance, with supporting verifications and other related documentation;

C. for each suspension, reinstatement, or termination:

   1. a Form HUD-93114;
   2. all individual escrow analyses related to overpaid or underpaid assistance; and
   3. individual ledgers (or other records) showing application of assistance to the account;

D. all monthly billings (Forms HUD-93102) for assistance payments with supporting documentation for all adjustments for overpaid or underpaid assistance;

E. for each monthly billing (Form HUD-93102), a case-by-case summary showing, for each case included in the billing, the following data elements:

   1. the date of endorsement for insurance;
   2. the original mortgage amount;
   3. the certified adjusted annual income used that month;
   4. the total mortgage payment that month;
   5. the “Formula One” calculation;
   6. the “Formula Two” calculation;
   7. the amount of assistance due;
   8. the explanation of adjustment code as provided in Chapter 10-21B3;
   9. the beginning and ending effective dates (month and year) of adjustment transactions Code 2;
   10. the handling charge; and
   11. the total bill.

10-33 RESPONSIBILITY FOR TRANSFERRING RECORDS. Mortgagees acquiring mortgages from other mortgagees and/or changing servicers are fully responsible for records that should have been maintained by the selling/transferring mortgagee or servicer.

NOTE: If it is determined after a change of servicers that assistance has been overpaid, the servicer at the time of the discovery will be responsible for refunding the overpayment.

10-34 REPORTING TO HUD. For monitoring purposes, the following Section 235 reports are to be submitted to HUD Headquarters.

NOTE: These reports should not be submitted to Field Offices unless specifically requested.

A. Reports On Recertifications. A Form HUD-93101-A must be submitted on each case recertified. The appropriate address is printed on the form.

B. Ad Hoc Reporting. As needed, HUD will request information on the cumulative assistance paid on an account to date (i.e., from origination through termination of the assistance contract) to determine the amount of recapture due HUD in order to satisfy the recapture lien. Records must be maintained in such a manner as to enable the mortgagee to provide this information. Such information must be made available to HUD upon request.

10-35 INFORMATION TO MORTGAGORS (24 CFR 203.508(c) and 235.1001). Within 30 days after the end of each calendar year, the mortgagee must provide the mortgagor with a statement advising the following:

A. the total amount of assistance applied to the mortgagor's account during the preceding year;

B. the taxes and interest paid on the mortgagor's behalf during the year; and

C. a notice as to the probable deductibility of interest payments using substantially the language shown below:

"If you itemize deductions on your income tax returns, please read this notice. Under Section 1. 163-1(d) of Federal Income Tax Regulations, you, as the mortgagor, may deduct for Federal income tax purposes, only that part, if any, of mortgage interest payments made during the year which exceeded the amount of assistance payments made by HUD during the year. You are urged to contact your tax advisor or State and local tax offices for guidance regarding the deductibility of payments on your State or local income tax returns."

10-36 REVISED/RECAPTURE/10 PROGRAM (24 CFR 235.12). The Appropriations Act of 1984 reactivated the Section 235 Program as revised by the Housing and Urban Rural Recovery Act of 1983. Mortgages insured under Section 235 beginning in early 1985 are identified with case number suffixes (the last three numbers) 246, 346, and 546. The assistance payments contract on these mortgages is limited by the Housing and Urban Rural Recovery Act of 1983 to 10 years after mortgage origination. When the 10 year period ends, the mortgagee must terminate the assistance payment contract, if there is not a request by the Department to continue such assistance. The assistance paid during the contract period is subject to recapture by HUD under certain circumstances. Procedures and requirements of these mortgages are the same as for other Section 235 mortgage except as indicated below:

A. Documentation At Origination. Assistance payments on these mortgages are disbursed and monitored using an automated system. In order to set up a new case in the automated system, the HUD Field Office must have:

1. the completed Mortgage Insurance Certificate indicating the FHA/HUD case number;
2. the separate assistance payments contract which has been executed by both HUD and the mortgagee and the "Acknowledgement of Mortgagors", signed by the mortgagors;
3. the mortgage interest rate;
4. the due date of the first principal and interest payment;
5. the mortgagee and/or servicer's complete name, address and mortgagee number assigned by HUD;

B. "Formula One" Assistance. Under this program, the "Formula One" assistance payment is the difference between the full monthly mortgage payment and 28 percent of the mortgagor's adjusted monthly family income (as opposed to 20 percent under earlier versions of the program). The actual assistance paid is still the lesser of the "Formula One" and "Formula Two" payments.

C. Recapture Of Assistance (24 CFR 235.12). In addition to the limited term of assistance, these mortgages are distinguished by a provision for recapture of assistance when the property is sold. (See Chapter 11 for detailed recapture procedures.)

D. Mortgage Assumptions. Mortgages insured under this program are assumable under the same conditions as are any other insured mortgages. However, mortgagors will not be eligible for assistance after the tenth anniversary of the first payment due under the original mortgage. Assumptors and potential assumptors should be advised of these limitations and how these limitations shall affect them.

NOTE: Allowable fees for assumptions of Section 235 mortgages are found in Chapter 4, Paragraph 4-4A3.

10-37 ALIEN MORTGAGORS. To be eligible for assistance, a mortgagor must be a citizen of the United States or an alien admitted for permanent residence.

A. Citizenship/Permanent Alien Status Proof Required. Evidence of this eligibility must be submitted to the mortgagee whenever:

1. there is a new application for assistance;
2. an existing cooperative membership is purchased;
3. an assisted mortgage is assumed;
4. an assisted mortgage is assigned to HUD; or
5. an assisted mortgage that has been in default is reinstated under 24 CFR 203.608.

B. Forms Of Acceptable Proof. When any of the events in the preceding paragraph occur, the mortgagee must ask the mortgagor to provide proof of eligibility based on citizenship. Acceptable proof may include:

1. a Birth Certificate;
2. a United States Passport
3. an Alien Registration Card (i.e., "Green Card"); or
4. a Naturalization Certificate.

C. Mortgagee Certification. The mortgagee must then certify that acceptable proof as stated in the preceding paragraph has been submitted by all persons from whom it is required. NOTE: If the mortgagee cannot make this certification, the assistance payments contract must be suspended and the mortgagor notified of the consequences.

D. Fraudulent Or Invalid Documentation (24 CFR 235.361(b)). If the documentation should prove to be fraudulent, invalid or inadequate, the mortgagor will be required to repay all assistance payments to HUD. In addition, the mortgagee may be required to refund overpaid assistance payments, plus handling charges and interest.

E. When Assistance May Be Reinstated. Assistance payments may be resumed at HUD's discretion if all aliens not able to establish eligibility have moved from the property or have established eligibility.

ii. Recapture of Section 235 Assistance Payments

Formerly HUD Handbook 4330.1, REV-5, Chapter 11

11-1 GENERAL. The Housing and Community Development Acts of 1980 and 1981 changed Section 235 of the National Housing Act to allow the Secretary of the Department of Housing and Urban Development (HUD) to require recapture of all, or a portion of, the assistance payments made on behalf of mortgagors under Section 235(i) who obtain FHA-insured mortgages.

11-2 MORTGAGES AFFECTED BY RECAPTURE PROVISION (24 CFR 235.12(a)). Section 235 mortgages are subject to a recapture where a firm commitment (or, under the Direct Endorsement Program, where the underwriter's approval of the Mortgage Credit Analysis Worksheet) was dated on or after May 27, 1981.

A. If the Firm Commitment date is on or before May 26, 1981, the first mortgage is not under the Section 235 Recapture Program, even though the settlement date occurred after May 26, 1981. The suffix of the FHA case number of mortgages insured under the first and second Section 235 Assistance Program allocations ends in the number five (5).

B. If the Firm Commitment date is on or after May 27, 1981, the first mortgage is under the Section 235 Recapture Program, even though the suffix of the FHA case number may end in the number five (5). The suffix for mortgages insured under the Section 235 Recapture Program ends in the numbers fifty-six (56) and sixty-six (66).

C. If the Firm Commitment date is on or after October 22, 1984, the first mortgage is under the Section 235 Revised/Recapture/10 Program. The suffix of the FHA case number for

mortgages insured under the Section 235 Revised/Recapture/10 Program ends in the number forty-six (46). (Refer to paragraph 10-36).

11-3 METHOD OF SECURING REPAYMENT (24 CFR 235.12(d)). The mortgagor is required to execute, at the time of closing of the first mortgage, a second note and mortgage or deed of trust (referred to as the security instrument or the HUD lien), with addendum, in favor of the Secretary to secure repayment of the assistance. The property is pledged as security for the second mortgage (i.e., the recapture lien).

11-4 MORTGAGEE'S RESPONSIBILITY PRIOR TO INSURANCE ENDORSEMENT. Upon making application with the mortgagee for assistance under the Section 235 program, the mortgagee shall make the mortgagor aware of the recapture provision by providing a copy of the "Notice To Buyer"

A. Contents Of "Notice To Buyer". This notice describes:

1. the provisions of the law which requires the repayment of all, or a portion of, the assistance payments which are paid on the mortgagor's behalf (and any subsequent assumptor of the mortgage) prior to the release of the second mortgage on the property;
2. the events which will "trigger" the recapture;
3. the formula used by HUD to determine the amount of recapture due to satisfy the second mortgage;
4. the importance of retaining all paid receipts and/or
5. bills relating to improvements made to a property; and
6. the financial responsibility that is acquired by an assumptor if the mortgage is assumed.

B. Mortgagor's Written Acknowledgement Required. At closing, the mortgagor must acknowledge that he/she has been made aware of the recapture provision by signing and dating an original and two copies of the "Notice To Buyer".

C. Position Of Lien. It is the mortgagee's responsibility to assure that the recapture lien, drawn in favor of the Secretary, is properly recorded in the appropriate position. The recapture lien may not be junior to any lien other than an FHA-insured first lien, unless:

1. there is a second lien held by a state or local government agency required by law to hold a second lien (such as a lien to secure repayment of funds advanced under a housing assistance program to make the initial cash investment or to assist in making mortgage payments); or
2. HUD has determined that it would be in the Secretary's best interest to accept a junior lien position.

D. Preparation Of Closing Documents. Upon approval of Form HUD-93100-4 on Section 235 cases subject to the recapture provision, the HUD Field Office will add the following paragraph as a condition to its firm commitment:

"Second mortgage with addendum, and note in the format prescribed by HUD to be executed and recorded for the maximum amount of assistance as established by Formula II which could be paid over the term of the mortgage. $_____ (Amount to be entered on second note and mortgage (or deed of trust)".

1. Security Instruments. Upon issuance of a firm commitment, the HUD Field Office having jurisdiction over the mortgage will instruct the mortgagee to modify the HUD-approved mortgage or deed of trust document for insured mortgages in that particular State to include the information for the Section 235 recapture mortgage or deed of trust, as follows:

    a. under the document caption, insert the words "with Addendum, for Repayment of Section 235 Assistance";
    b. enter the words "the Secretary of Housing and Urban Development" as the mortgagee and delete any reference to a corporation;
    c. delete any reference to monthly installments;
    d. enter a statement that the principal sum of the mortgage will not exceed the amount computed under the note. The following language is acceptable:

        ". . . but not to exceed an amount computed under the terms of a note executed by the mortgagor on _____; with interest, if any, according to the terms of the note.";

    e. delete the two paragraphs relating to the payment of escrow items; and

    f. an addendum should also be added to provide for the special repayment provisions required by Section 235.

        NOTE: The Note must be reproduced locally. HUD Field Office Counsel shall review model security instruments to be used to determine that they comply with local law and meet HUD requirements.

2. Information to be Inserted. The mortgagee completes these documents by inserting the following information:

    a. appropriate dates;
    b. names;
    c. property description;
    d. interest rate (which will be the same as the rate on the first mortgage); and
    e. the maximum amount of assistance that may be paid over the full term of the mortgage.

        NOTE: The maximum amount will be the "Formula II" assistance payment shown on the Application for Assistance, Form HUD-93100-4, Line G-7.

E. Title Insurance. The title insurance does not need to recognize the junior recapture lien.

F. Hazard Insurance. The Secretary does not need to be named as a payee in the hazard insurance policy.

11-5 REQUIREMENTS AT CLOSING. The originating mortgagee is responsible for the following at the time of closing:

A. Execution Of Lien Documents (24 CFR 235.12(d)). The documents creating the lien in favor of the Secretary shall be executed at the same time as those creating the first lien.

B. Identifying Costs. Costs associated with the transaction may be paid by either the buyer or the seller, subject to the usual underwriting restrictions on such costs. Costs associated with both mortgages may be shown on the same HUD-1, Settlement Statement, as long as the HUD-1 clearly reflects what the costs were for and which costs were paid by the seller and which were paid by the purchaser.

11-6 RECORDING THE LIENS. The documents creating the second lien should be delivered for recording at the same time as those creating the first lien. It is the mortgagee's responsibility to assure that the liens are recorded in the proper order.

NOTE: Should the recapture lien be inadvertently recorded in first-lien position, HUD will agree to subordinate its lien to correct this error as the mortgagee's lien will not be insurable if it is not in first-lien position.

11-7 INSURANCE ENDORSEMENT. The mortgagee's lien is submitted for mortgage insurance endorsement in the normal manner, accompanied by the following documents: the executed, original "Notice to Buyer"; a copy of the Note in favor of the Secretary; and copies of the executed security instruments with evidence that the originals have been delivered for recording (unless the original, recorded documents have been returned before the case is submitted for insurance endorsement).

NOTE: The application for FHA insurance will not be processed unless it is accompanied by the Notice to Buyer.

A. Where it is not customary for recorders to provide receipts for documents accepted for recording, the mortgagee's certification will be accepted as adequate evidence that the original documents have been delivered for recording.

B. When the original documents have been recorded and returned, they are to be forwarded immediately to the appropriate HUD Field Office with the original note in favor of the Secretary. They will be retained by that HUD Field Office until the lien is satisfied.

11-8 GENERAL SERVICING. Servicing of the mortgage is governed by the procedures outlined in Chapter 10 until one of the events described in Paragraph 11-9 occurs which will "trigger" the recapture provision.

NOTE: Should the mortgagee find at any time that a case is not under the Recapture Program, but that a second mortgage (or deed of trust) with addendum and a note was executed by the

mortgagor and recorded by the mortgagee, the mortgagee must contact the HUD Field Office, single Family Loan Management Branch. The insurance binder must be reviewed by HUD and a justification prepared for satisfying the HUD lien without calculating a recapture amount.

11-9 EVENTS TRIGGERING RECAPTURE PROVISION (24 CFR 235.12(a)). The recapture provision is "triggered" when any one of the following events occurs:

A. a property is sold to a party not eligible for assistance;

B. the mortgage is assumed by a party eligible for assistance but does not agree to accept assistance and/or assume liability for repayment of assistance paid on behalf of the seller (and previous mortgagors);

C. a property is rented (or, in the case of properties with more than one unit, the owner's unit is rented) for more than one year; or

D. the mortgagor (or the mortgagor's agent) requests that the Secretary's lien be released.

11-10 FORMULA FOR CALCULATING RECAPTURE (24 CFR 235.12(b) and (c)). When the recapture provision is "triggered", the amount of recapture shall be determined by HUD to be THE LESSER OF:

A. the total amount of assistance paid on behalf of the mortgagor (and any previous mortgagors); or

B. 50 percent of the net appreciation (as determined by HUD) of a property.

NOTE: Net appreciation is any increase in the value of a property over the original purchase price, minus reasonable costs of sale, costs of refinancing the first mortgage or cost of the appraisal when paying off the HUD lien, and minus the reasonable costs of improvements made to a property.

11-11 MORTGAGEE'S ROLE IN RECAPTURE PROCESS. Whenever one of the events described in Paragraph 11-9 occurs, the mortgagee is charged with the responsibility for the following:

A. Advising both the HUD Field Office having jurisdiction over the mortgage and the HUD Headquarters Office of Finance and Accounting, Subsidy Accounting Branch that an event has occurred which "triggers" the recapture provision. This notification shall include as much information as the mortgagee has available (i.e., FHA case number, the date of a prepayment associated with a sale; the name and address of the assumptor, if the assumptor is not living at the property address; the date the mortgage was assumed and the fact that the assumptor elected not to receive or did not qualify for assistance, etc.).

B. Providing both the local HUD Field Office and the HUD Headquarters Office of Finance and Accounting, Subsidy Accounting Branch, a statement in writing, signed by an officer of the company, of the total amount of assistance paid on behalf of the original mortgagor

and all assumptors, if any, less handling charges and the total of any assistance payments which may have been inadvertently applied to the mortgagor's account.

C. Providing copies of original documents (i.e., signed settlement statements, sales contracts, etc., which are contained in the mortgagee's case file) that the mortgagor cannot provide, but are needed by HUD to determine the amount of recapture due to satisfy the HUD lien.

D. Serving as the "go-between" where necessary and advising the mortgagor of the documentation required to calculate the recapture amount due HUD.

NOTE: THE MORTGAGEE MUST NOT CALCULATE THE RECAPTURE AMOUNT.

NOTE: If the mortgagee receives the recapture amount due either directly from the mortgagor or as a disbursement from closing, the mortgagee shall promptly forward these funds directly to the local HUD Office.

THE MORTGAGEE MUST NOT ASSUME ANY DUTIES CONCERNING THE CALCULATION OF THE RECAPTURE AMOUNT.

E. Verifying and certifying that all appropriate recertifications (from the time of inception through the time of termination of the assistance payments contract) have been correctly processed and billed.

At the request of a Field Office, the mortgagee shall submit recertifications for review by that Field Office before the recapture process begins.

F. Repaying any overpaid assistance (that may have been discovered as a result of Paragraph 11-11E) as described in Chapter 10.

NOTE: Any amounts of overpaid assistance paid to HUD because of this requirement are to be so indicated and subtracted from the amount reported in compliance with Paragraph 11-11B.

Any overpaid assistance should be handled as a separate transaction from the recapture amount when processing a recapture case for satisfaction of HUD's lien.

NOTE: If a check for an overpaid assistance amount is received or if the overpaid assistance is included in the same check as the recapture amount, the check must be forwarded to HUD Headquarters, Office of Finance and Accounting and a copy should be sent to the HUD Field Office having jurisdiction over the mortgage immediately along with the back-up documentation for the overpaid assistance amount.

G. Terminating the assistance payment contract in accordance with Chapter 10, Paragraph 10-19.

NOTE: If the mortgagor is refinancing the first mortgage, the mortgagee is charged with the responsibility for items B, D, E, F, and G.

11-12 HUD'S ROLE IN THE RECAPTURE PROCESS. When the local HUD Field Office is advised by a mortgagee, an attorney, a title company or other settlement party, of a pending or accomplished event which triggers recapture (as listed in Paragraph 11-9), the HUD Field Office may request the following items in order to compute the recapture amount due to satisfy the HUD lien:

A. a copy of the recorded second mortgage (or deed of trust) with addendum and executed note (should the HUD Field Office not have the original documents in its files);

B. a copy of the executed sales contract and HUD-1 settlement statement (signed by the settlement attorney) where the original mortgagor purchased the property;

C. a copy of the executed sales contract and HUD-1 settlement statement (signed by the settlement attorney) of any assumptor who purchased the property prior to the last mortgagor;

D. a copy of the executed sales contract and HUD-1 settlement statement (signed by the settlement attorney) when the last mortgagor (i.e., the last one receiving assistance) sold the property;

E. copies of paid receipts and/or bills marked "paid in full" for any improvements made to a property (by the original mortgagor and/or any assumptor);

F. a letter from the mortgagee, signed by an officer of the company, stating the total amount of assistance paid on behalf of the original mortgagor and all assumptors (if any).

G. an appraisal report on the property and a statement of the cost of the appraisal, if needed; and

H. a statement of the costs of refinancing the first mortgage, when needed.

11-13 DETERMINING THE RECAPTURE AMOUNT. To determine the recapture amount for a Section 235 recapture case, the documentation requested in Paragraph 11-12 must be reviewed. A formula is used to calculate the recapture amount. The cost of sale (or the cost of refinancing the first mortgage) and the cost of improvements to a property are subtracted from the appreciation of the property to arrive at net appreciation. See Paragraph 11-10.

11-14 REASONABLE COSTS OF SALE. Since the title of the property changes when the property is sold, the costs of sale must clearly indicate which costs were paid by the seller and which were paid by the purchaser and are subject to the usual underwriting restrictions on such costs. Costs of sale shall also conform to what is considered by the local HUD Field Office to be reasonable and customary for that area of the country. Otherwise, the excess will be disallowed. Costs of sale must be clearly identified on a HUD-1, Settlement Statement, signed by the

appropriate person. If there is no HUD-1, the costs of sale must be itemized and supported by receipts.

A. Costs Allowed. Costs of sale items which HUD will allow to be claimed against the net appreciation of a property if the costs are paid by the original mortgagor and/or subsequent assumptors of the mortgage are:

1. broker's commission;
2. discount points (not origination fee);
3. property survey;
4. appraisal fee;
5. State and local taxes (charged in connection with the transaction, such as transfer taxes (not property taxes or amounts escrowed for the future payment of taxes);
6. attorney fees;
7. fees for the preparation and recording of documents;
8. notary fees;
9. costs of advertising the property for sale (but not if these costs are paid by the broker and included in the commission);
10. title search, but not if included in attorney's fee;
11. title insurance;
12. pest control inspection;
13. pumping out septic tank as a condition of sale (where required by State law);
14. buyer’s protection plans providing the buyer with a warranty as to the condition of the property and covering repair or replacement of certain elements of the property for a limited time; and/or
15. any other costs resulting from a State and/or local requirement.

B. Costs Not Allowed.

1. buydown fee (If there are no discount points allowed (see A.2. above), the buydown fee can be claimed against the appreciation of the property);
2. tax funding service fee; and
3. VA funding fee.

11-15 REASONABLE COST OF REFINANCING THE FIRST MORTGAGE. Since the title to a property does not change when the first mortgage is refinanced, the costs of refinancing do not include all of the costs allowed for costs of sale when a property is sold. Refinancing costs must be clearly identified on a HUD-1, Settlement Statement, signed by the appropriate person. If there isn't a HUD-1, the cost of refinancing should be itemized and supported by receipts.

A. Costs Allowed. If there are any prior assumptors of a mortgage that is being refinanced, the costs of assuming the mortgage (for each transaction) can be claimed against the appreciation of a property if the charges are documented. Costs of refinancing the first mortgage which HUD will allow to be claimed against the appreciation of a property (if the costs are paid by the last eligible mortgagor) are:

1. appraisal fee;

2. one discount point (not origination fee);
3. property survey;
4. pest control inspection;
5. title search;
6. lender's title insurance; and
7. fees for the preparation and recording of documents.

B. Costs Not Allowed.

1. Buydown fee (if there are no discount points, one point of the buydown fee can be claimed against the appreciation of the property);
2. tax funding service fee;
3. VA funding fee; and
4. mortgagor's title insurance (title of property).

11-16 REASONABLE COSTS OF IMPROVEMENTS.

A. To qualify As An Improvement. Improvements must be over and above deferred or routine maintenance to be allowed as claims against the appreciation of a property. They must be:

1. acceptable to HUD;
2. improvements that were not present or a part of a property at the time the mortgage was originated, unless it is an upgrade (see Paragraph 11-16B9 below);
3. considered to be permanent improvements in that they will remain with a property when it is sold as they cannot be removed from the property without causing damage to existing structures and/or the property; and

4. improvements for which the mortgagor can substantiate the cost with documented proof that such improvements were done to the mortgaged property site and for which the mortgagor has receipts marked “paid-in-full” as required in Paragraph 11-12E.

B. Allowable Improvements. Acceptable types of improvements which HUD will allow to be claimed against the appreciation of a property when computing the recapture amount include, but are not necessarily limited to, the following:

1. room additions and other permanent additions, such as, but not necessarily limited to, porches, patios, decks, garages and carports;
2. permanent landscaping and/or other site improvements that tend to increase the value of a property, such as fences, trees, shrubbery, lawns (if no lawn was provided initially) retaining walls, etc.;
3. built-in bookshelves, cabinets, etc.,
4. appliance additions (stoves, refrigerators, built-in dishwashers, built-in microwave ovens, clothes washers and dryers, and attic and ceiling fans) which are conveyed to buyer by seller;

NOTE: If items in #4 above are replacement items, they are not allowed against the appreciation of a property.

If the mortgagor bought original appliances after purchase of a new property, original costs of appliances can be claimed against the appreciation of a property. (In some sections of the country, appliances are not furnished by the builder, unless requested by the mortgagor.)

Portable appliances are not allowed against the appreciation of a property.

The Field Office Evaluation staff shall be notified on a case-by-case basis to determine whether washers and dryers or other such permanent fixtures that are considered to be regional appreciation value assets can be claimed against the appreciation of a property.

5. finishing or refinishing of basements or other rooms when the area was unfinished at the time of origination or the refinishing substantially alters the nature of the area and enhances the value of a property;
6. the addition of storm windows and/or doors or replacing regular windows with replacement windows (for the purpose of saving energy);
7. installation of permanent heating or cooling systems where none existed, the addition of a solar heating system or replacing a conventional heating system with a solar heating system;
8. carpeting areas where floors were previously without finished coverings (such as, a room addition, or a basement area);
9. upgrading: appliances, cabinets, carpeting, electrical and plumbing fixtures, etc.

   NOTE: If the mortgagor upgraded an item that the builder was to install at the time the structure was erected, the cost of the improvement is the difference in price for upgrading. If such items are replaced, the replacements cannot be claimed against the appreciation of a property.

10. television dish. (If the dish is listed in the sales contract and/or appraisal report and cannot be removed from the property without damaging the landscape, it can be claimed against the appreciation of the property.)
11. sheds and outbuildings. (If structures enhance a property and cannot be removed without damaging the landscape, they can be claimed against the appreciation of a property.)
12. building permits and inspection fees for property additions;
13. swimming pools are allowed as improvements on a case-by-case basis if:

    a. the swimming pool is below ground and enhances the value of a property (per appraisal) and/or is taxed by the municipality, its cost can be claimed against the appreciation of a property;
    b. the swimming pool is above ground, it may or may not be allowed against the appreciation of a property depending on the area of the country it is located. If the

pool is not taxed by the municipality or is not given a value in the appraisal of the property, its cost cannot be claimed against the appreciation of a property;

c. a swimming pool or other such fixture, i.e., outdoor hot tub, is affixed to a property and cannot be moved without damaging the fixture or the landscape, is taxed by the local municipality and/or enhances the value of the property (per appraisal), its cost can be claimed against the appreciation of a property;

14. special assessments, such as water and sewer lines connecting a property to the water and sewer lines of a municipality, the paving of streets, sidewalks and alleys, wiring for electricity and telephones and piping for gas must be handled on a case-by-case basis; and
15. land issues (those considered to be improvements must be handled on a case-by-case basis).

NOTE: The HUD Field Office must be contacted for guidance in handling special assessments and land issues as improvements and their costs as claims against the appreciation of a property.

C. Miscellaneous Improvements Of Less Than $100 Per Project. Miscellaneous improvements which are less than $100 per project are to be considered incidentals and are not to be allowed as a claim against the appreciation of a property. Included in this category are such items as molding, weatherstripping, sod, grass seed, fertilizer, etc.

D. Group Improvements As Projects. When a major improvement which involve the purchase/rental of numerous items of equipment and/or materials is claimed, it must be grouped together as one project. However, each item purchased for that project must reflect its own separate cost.

E. “Sweat Equity”. Where the work is performed by the mortgagor (i.e., “sweat equity”), no monetary value will be given for the “sweat equity” with respect to being used as a claim against the appreciation of a property. However, the cost of building permits, inspections, renting items of equipment and purchasing the supplies and materials necessary to accomplish the work can be allowed.

F. Rental Equipment. Costs of renting equipment for the specific use in completing an acceptable improvement (as described in Paragraph 11-16B) may be used as claims against the appreciation of a property.

1. Rental equipment which may qualify as claims against the appreciation of a property includes, but is not necessarily limited to, backhoes, bulldozers, cement mixers, jackhammers, electric or airdriven nail/brad/staple guns, posthole augers, fencewire stretchers, etc., which were rented for the sole use in completing a specific home improvement listed in Paragraph 11-16B.

2. Equipment which does not qualify as a claim against the appreciation of the property includes miscellaneous tools and equipment purchased for use in completing an improvement as described in Paragraph 11-16D and will also be used for performing

other tasks and/or home improvements. Such items may include, but are not necessarily limited to, shovels, picks, ladders, carpenter levels, saws, drills, hammers, utility knives, screwdrivers, wire cutters, wrenches, caulking guns, cement trowels, etc.

G. Where The Cost Of An Improvement Is Paid Using A Monthly Installment Payment Plan. Where an improvement is paid for on a monthly installment plan (whether paid to the company providing the service, a bank, a credit card company, etc.) only the initial cost of the improvement (excluding any interest, finance charges or late charges) may be used as a claim against the appreciation of a property.

H. Receipts/Documentation Of Improvements. In order to support the cost of an improvement, the mortgagor must present receipts or invoices on company letterhead marked "paid-in-full" for each allowable home improvement. Receipts which are written on paper without a business letterhead, or without specific (or legible) entries as to what service was provided, who provided the service, the date the service was provided, and/or what type of material was purchased, and where appropriate, at what property address the service was performed, etc., may be subject to further scrutiny and/or rejection by the HUD Field Office.

I. Replacements. Items such as roof replacements, heating system replacements (except solar heating systems), and exterior and interior painting are home maintenance. They must not be claimed against the appreciation of a property as improvements.

J. Items Not Allowed As Improvements.

1. Draperies, curtain rods, window shades and blinds are never allowed as improvements unless they are approved by Headquarters.

2. Plumbing fixtures (such as faucets and water purifiers) and light fixtures cannot be claimed against the appreciation of a property unless they are installed as part of a major improvement or they are approved by Headquarters.

3. Intercommunications systems must not be claimed against the appreciation of a property.

11-17 FRAUD AND ABUSE. Careful scrutiny is to be given where substantial improvements have been made over a short period of time, shortly after purchase of a property, and/or over an extended period, which exceed $10,000 while assistance was still being paid.

NOTE: Occurrences such as these, will lead to the HUD Field Office questioning the mortgagor's need for assistance and/or the possibility of fraud in the original application process.

11-18 CALCULATING THE RECAPTURE AMOUNT.

A. Calculating The Recapture Amount. The HUD Field Office shall calculate the amount of recapture due in order to satisfy the lien using the formula shown in Paragraph 11-10 and

on the Recapture of Assistance Payments Worksheet. Only the HUD Field Office shall calculate the amount of assistance to be recaptured.

B. Selling Price. If the HUD Field Office feels that the reported selling price is substantially below the property value or discovers that the property is being sold for less than the amount for which it was purchased, the HUD Field Office has the option of requesting that the mortgagee obtain an appraisal of the property.

NOTE: If the appraised value is five (5) percent or more above the sales contract price, the recapture will be based on the appraised value rather than the selling price shown on the sales contract.

11-19 DISPOSITION OF THE RECAPTURE CHECK. The HUD Field Office has the responsibility of collecting the recapture amount from the mortgagor or the mortgagor's representative. Should the recapture amount be collected by the mortgagee, the check must be forwarded to the appropriate HUD Field Office and the Office shall forward it to a lockbox in Atlanta, Georgia.

11-20 RELEASING THE RECAPTURE LIEN. Upon receiving the full recapture amount required to satisfy the second mortgage, or second deed of trust, the HUD Field Office will prepare, execute, record and forward the recorded Satisfaction of Lien to the mortgagee or the agent representing the mortgagor. The mortgagee or mortgagor's agent will then be responsible for forwarding the document to the mortgagor.

11-21 SATISFYING THE LIEN BEFORE OBTAINING RECAPTURE AMOUNT. If the settlement on a property is imminent, the second mortgage or second deed of trust has not been satisfied, and there is a request to satisfy the lien before closing, the mortgagor must be informed that since there is not enough time to do the recapture formula to determine the recapture amount, the full amount of assistance paid on the mortgagor's behalf must be submitted to HUD so that the HUD lien can be satisfied before settlement of the mortgage. When the recapture calculation has been completed, if there is an overpayment, the overpayment shall be refunded to the mortgagor.

11-22 ASSIGNMENT TO HUD. In those cases where the HUD Field Office has decided to accept an assignment of the first mortgage, the recapture lien shall remain in place. The mortgagee must advise both the HUD Field Office and the HUD Headquarters Office of Finance and Accounting, GPA - Subsidized Housing Programs Division, Attention: Accounts Payable Section (the mailing address on Form HUD-93102) in writing, signed by an officer of the company, of the total amount of assistance paid through the date of assignment.

11-23 FORECLOSURES - HUD-ACQUIRED PROPERTIES. For those properties conveyed to HUD as a result of foreclosure, the mortgagee must advise the HUD Field Office, in writing, signed by an officer of the company, of the total amount of assistance paid over the term of the mortgage. It will not be necessary for HUD to prepare a satisfaction of lien for the HUD lien. A foreclosure that is properly processed by the mortgagee's foreclosing attorney will wipe out all existing liens on the property, including HUD's lien. However, if the HUD lien exists after

foreclosure of the first mortgage, the HUD Field Office must satisfy the lien at the request of the foreclosing attorney.

11-24 DEED-IN-LIEU OF FORECLOSURE. For the mortgage that is conveyed to HUD as a result of a deed-in-lieu of foreclosure, the recapture lien shall remain in place. The mortgagee must advise the HUD Field Office, in writing, signed by an officer of the company, of the total amount of assistance paid over the term of the mortgage.

NOTE: Once the property is in HUD's Property Disposition inventory, the HUD Field Office will prepare and record a satisfaction of the recapture lien in order to provide a clear title when the property is sold by HUD.

11-25 RELOCATION OF MORTGAGOR BY EMPLOYER.

A. Termination Of Assistance. If an employer requires a Section 235 mortgagor to relocate, and the employer assumes the responsibility of selling the mortgagor's property, the mortgagee must terminate the assistance at the appropriate time. (Chapter 10, Paragraph 10-19.) The mortgagee must furnish the HUD Field Office with a statement of the total amount of assistance paid on behalf of the original mortgagor and any assumptors of the mortgage.

B. Value Of Property. The mortgagee must provide the HUD Field Office with an appraisal to determine the fair market value of a property or the HUD Field Office must request an appraisal of the property.

11-26 DISLOCATION OF MORTGAGOR (EMINENT DOMAIN).

A. Relocate To Another Property. If a State or local government dislocates a Section 235 mortgagor because it needs the property for public use, the mortgagor may relocate to another property under the same mortgage. The FHA case number must remain the same for the purpose of paying assistance on the mortgagor's behalf.

    1. The State or local government must NOT pay the first mortgage in full.

    2. The mortgagee must agree to transfer the first and second mortgages or first and second deeds of trust to a new property.

    3. The mortgagee must amend the first and second mortgages or deeds of trust security instruments to read the legal description of the new property.

    4. The new property must be equal in value to the old property.

    5. The mortgagee must transfer the Section 235 assistance with the first mortgage or deed of trust to the new property.

    6. The amended mortgages or deeds of trust must be executed, dated, and recorded to reflect the transfer of these documents to the new property.

7. The mortgagee must send the recorded, amended second mortgage or deed of trust to the HUD Field Office where it will be filed with the original security instruments.

B. Unable To Transfer Mortgages. If the mortgagor is unable to get the first and second mortgages or first and second deeds of trust on a property transferred to another property of equal value, the State or local government must purchase the property from the mortgagor. The mortgagee must contact the HUD Field Office of the ending sale of the property. The HUD Field Office must take the appropriate steps to satisfy the HUD lien on the property.

11-27 SUBORDINATION OF THE HUD LIEN. If subordination of the HUD lien on a property is in the best interest of the Secretary, the HUD Field Office may approve subordination of a recapture lien in the case of refinancing a first mortgage or securing a Title I loan for improving the property. The mortgagee must contact the HUD Field Office for details on subordinating the HUD lien.

11-28 SUMMARY. The appropriate HUD Field Office should be notified if any one of the following events occurs:

A. The first mortgage on a property has been paid in full through sale of the property.

B. The first mortgage has been assumed by a mortgagor not eligible for assistance or the new mortgagor does not want to participate in the Section 235 Assistance Program.

C. The first mortgage has been refinanced.

D. The first mortgage has been assigned to HUD.

E. The property has been rented for more than a year. (If more than one unit, the owner's unit is rented.)

F. The assistance has been terminated after a 36-month suspension.

G. The mortgagor has been relocated or dislocated from a property under circumstances beyond his/her control.

H. The mortgagor has requested that the HUD lien be subordinated to a lessor position when the first mortgage is refinanced

Explanations of A through H above.

In A., above, the mortgagor must be notified that the Recapture Provision becomes effective.

In B., above, the mortgagor must be notified that the Recapture Provision becomes effective.

In C. above, the mortgagee refinancing the first mortgage should notify the HUD Field Office if it (the mortgagee) wants the HUD lien satisfied due to the fact that the HUD lien moves into first-lien position when the original first mortgage is paid-in-full.

In D. above, if the first mortgage is assigned to HUD, the mortgagee must submit a statement of the full amount of assistance paid by HUD on behalf of the original mortgagor and all assumptors of the mortgage to the HUD Field Office. In E. above, the HUD Field Office must calculate the recapture amount and maintain a file on the case. In F. above, the HUD Field Office must request a decision from the mortgagor as to whether he/she wants the HUD lien satisfied after termination of the assistance.

In G., above, there are specific procedures to follow for processing the relocation case. For the dislocation case, there are special conditions that must be considered to retain the original first mortgage and Section 235 assistance by transferring both to another property of equal value. In H., above, there are special conditions under which a Section 235 Recapture mortgage can be subordinated.

iii. Maintenance of Escrow Accounts - Analysis

Formerly HUD Handbook 4330.1, REV -5, Section 2-7E

2-7 MAINTENANCE OF ESCROW ACCOUNTS - ANALYSIS (24 CFR 203.550(b)).

E. Mortgages Insured Under Section 235. [HUD's escrow requirements apply] equally to mortgages insured under Section 235. With these mortgages, the logical time for escrow analysis is on or just after the anniversary date of the first payment due under the mortgage since it is then that the MIP changes and annual recertification is required. Both of these events may affect the amount of assistance to which the mortgagor is entitled and delays in analysis could result in a need for significant retroactive adjustments.

   Both Formulas I and II must be recomputed as of the anniversary date regardless of changes in escrow requirements. Mortgagees may, however, elect to analyze Section 235 escrow accounts at any time, provided assistance is recomputed at the time of annual recertification to reflect any changes in the mortgagor's income or family composition, as well as the annual change in MIP. (See Chapter 10 for detailed instructions.)

iv. Statement for Income Tax Purposes

Formerly HUD Handbook 4330.1, REV-5, Section 2-10B

2-10 PROVIDING LOAN INFORMATION (24 CFR 203.508)

B. Statement For Income Tax Purposes (24 CFR 203.508(c)). By January 30 of each year, the mortgagee must furnish the mortgagor with a statement of taxes and interest paid during the preceding calendar year (24 CFR 203.508(c)). HUD takes no position on the income tax impact of these amounts.

   If the mortgage is insured under Section 235, the statement must also include an accounting of the total amount of assistance paid by HUD and applied to the account during the preceding year (24 CFR 235. 1001). This Section 235 Statement may be a part

of the escrow accounting or may be in a separate statement accompanying the Income Tax Statement (See Paragraph 10-35B). The mortgagee may either:

1. report the excess of interest payments over assistance payments during the year, or

2. report both the total interest and assistance payments during the year.

NOTE: This Income Tax Statement must include or be accompanied by a statement which includes substantially the following language:

"If you itemize deductions on your income tax returns, please read this notice. Under Section 1. 163-1(d) of Federal Income Tax Regulations, you, as the mortgagor, may deduct for Federal income tax purposes only that part, if any, of mortgage interest payments made during the year that exceeded the amount of assistance payments made by HUD during the year. You are urged to contact your tax advisor or State and local tax offices for guidance regarding the deductibility of payments on your State or local income tax returns."

v. Late Charges

Formerly HUD Handbook 4330.1, REV-5, Section 4-2D

4-2 LATE CHARGES (24 CFR 203.25).

D. Computing Late Charges.

NOTE: When the mortgage is insured under Section 235, OR the mortgage is subject to a buy-down, only the mortgagor's portion of the monthly payment is used when computing a late charge.

vi. Assumptions

Formerly HUD Handbook 4330.1, REV-5, Section 4-4

4-4 ASSUMPTIONS.

A. Maximum Allowable Fees. Fees for processing assumptions must be based on the mortgagee's actual costs and cannot exceed the maximum amount authorized in this Handbook. (See Chapter 6 for requirements concerning assumptions.) The maximum amounts allowed by HUD for processing various types of assumption are as follows:

1. Section 235 Assumptions.

a. Assumption Without A Release of Liability and Where Assistance Is Requested But Disapproved. Where no credit checks are required and the mortgagor applies for assistance but is not considered eligible for Section 235 subsidy the maximum fee that may be charged is $140.00.

b. Assumption Without A Release of Liability and Where Assistance Is Requested and Approved. Where a credit check is not required and the Section 235 subsidy will be terminated, the maximum fee that may be charged is $185.00.

c. Assumption With A Release of Liability and Where Assistance Is Not Requested or Approved. Where a credit check is required and the Section 235 subsidy will be terminated, the maximum fee that may be charged is $500.00.

d. Assumption With A Release of Liability and Assistance Is To Continue. Where a credit check is required and the Section 235 subsidy will continue on behalf of the assumptor, the maximum fee that may be charged is $500.00.

vii. Escrow Balance Returned to Mortgagor

Formerly HUD Handbook 4330.1, REV-5, Section 5-2

5-2 PREPAYMENT IN FULL (24 CFR 203.558).

G. Escrow Balance Returned to Mortgagor. When the mortgage insurance is terminated without payment of a claim for insurance benefits (i.e., payment in full) the remaining funds held in escrow for the payment of taxes and hazard insurance shall be * released to the mortgagor promptly (i.e., no later than 30 calendar days after the payoff). *

EXCEPTION: An analysis must be performed in accordance with Paragraph 10-20D3 on all Section 235 prepayments in full prior to refunding any escrow money to the mortgagors.

H. Section 235 Mortgages. In addition to the other requirements cited under Paragraph 5-2, for all Section 235 mortgages that are prepaid in full, the following requirements apply:

1. mortgagees must perform an analysis in accordance with Paragraph 10-20D3 prior to refunding any escrow money to the mortgagor as stated in the “Exception” cited in the preceding paragraph; and

2. mortgagees must determine in accordance with the instructions outlined in Chapter 11 if the mortgage is insured pursuant to a firm commitment issued after May 27, 1981 as to whether;

   a. the prepayment has triggered the recapture provision in connection with HUD's Section 235 mortgage on the property; and
   b. the appropriate action has been taken as required by Chapter 11.

viii. Partial Payments

Formerly HUD Handbook 4330.1, REV-5, Section 7-9

7-9 PARTIAL PAYMENTS (24 CFR 203.556). …When the mortgage is insured under Section 235, the "full amount due under the mortgage" is considered to be the full amount due from the mortgagor only.

ix. SCRA Interest Rate Cap

Formerly Mortgagee Letter 2006-28 Mortgage and Foreclosure Rights of Servicemembers under the Servicemembers Civil Relief Act (SCRA)

A few Section 235 mortgages still have assistance payments from HUD applied to them on behalf of lower-income mortgagors. Assistance for these mortgages may be affected by the six percent interest rate limitation. On all accounts receiving assistance when the note rate of interest exceeds six percent, the amount of assistance must be reanalyzed, and the subsidy amount must be recalculated using the full mortgage payment at a six percent rate when determining the amount of assistance. For some accounts, the interest rate deduction will cause the suspension of assistance for the period of active duty. Whenever an interest rate reduction is made with retroactive effect and the Section 235 assistance is reduced, any over-billed subsidy must be returned to HUD as a refund or adjustment to the subsequent Section 235 monthly billing. When active duty terminates and the note rate resumes, the assistance must be recalculated and restored in accordance with the usual procedures. Any income recertification requests received from mortgagors in accordance with 24 CFR § 235.355 must be processed expeditiously. Please also reference ML 91-20, *Effect of the Soldiers' and Sailors' Civil Relief Act of 1940* on *FHA Insured Mortgages* for additional guidance in calculating Formula 2 subsidy.

4. Single Family Default Monitoring System Default Reporting and Non-Incentivized Loan Modification Report

a. Single Family Default Monitoring System Default Reporting (04/29/2026)

i. Definition

The Single Family Default Monitoring System (SFDMS) is HUD's system for tracking Mortgagee data on Defaulted Mortgages until a Default is resolved through reinstatement or termination.

ii. Standard

The Mortgagee must accurately report in SFDMS the required data to indicate the severity of Default and the Mortgagee actions taken.

(A) Types of Mortgages to Report

Each month, the Mortgagee must report all reportable Default servicing activities for all Mortgages that are 30, 60, and 90 Days or more in Default and all Mortgages in a Payment Supplement Period, as of the last Day of the month.

The Mortgagee must report the status of four classes of Mortgages each month:

- New Defaults: The Mortgagee must report Defaulted accounts when one full installment is due and unpaid (30 Days Delinquent - Status Code 42) and must continue reporting the applicable Status Code until the Default is resolved.
- Open Defaults: The Mortgagee must continue to report a Status Code 42 until a servicing action has been initiated/approved and/or completed, which would warrant a Status Code change.
- Defaults Resolved During the Cycle Month: The Mortgagee must report the appropriate Status Code to reflect that the Default has been addressed.
- Mortgages Receiving a Payment Supplement: The Mortgagee must report Status Code 51 with the applicable oldest unpaid installment date and additional Status Codes as applicable.

(B) Time Frame for Reporting

For every case for which reporting is required, the Mortgagee must submit Default data documenting the status as of the end of the month by the fifth business day of the following month. In addition, Mortgagees may also submit Default data throughout the month.

(C) Reporting Accuracy

The Mortgagee must submit a complete and accurate SFDMS report. If the Mortgagee submits incomplete or inaccurate data, SFDMS may automatically reject the report for that Mortgage or the Mortgagee's entire monthly report.

(D) Quality Control

A Mortgagee's Quality Control Plan must ensure that:

- the reporting staff is properly trained;
- servicing and foreclosure staff are aware of reporting requirements and of cases reported; and
- report format and content are checked for errors by trained staff, whether it is prepared manually or by an automated system.

(E) Error Reports and Correction

The Mortgagee may receive Error Reports from two systems:

- Electronic Data Interchange (EDI), which provides the All Transaction Sets 824 (TS 824) Report (see the Electronic Data Interchange Implementation Guide for additional information); or
- SFDMS.

The Mortgagee is responsible for retrieving Error Reports from these systems and submitting necessary corrections by the fifth business day. HUD will not provide additional time to enter corrections.

(F) Calculation of Curtailment of Interest for Failure to Notify HUD of Foreclosure Initiation

The Mortgagee must give Notice to HUD of Foreclosure Initiation within 30 Days of initiating foreclosure by reporting the foreclosure status in the monthly SFDMS report. This is accomplished by reporting DDS Code 68 for the current cycle or following cycle in which the first legal action is taken to initiate foreclosure.

Interest is calculated based on the date the first legal action to initiate foreclosure was taken and the reporting cycle in which the action was properly reported.

For each reporting cycle that the notification of foreclosure is delayed, the Mortgagee's claim must be reduced by an amount equivalent to 30 Days of interest. Where non-compliance with this requirement is established, the minimum interest reduction will be equal to 30 Days of interest.

The Mortgagee must report a DDS Code 68 to resolve this noncompliance.

Mortgagees are responsible for self-curtailing where the reporting requirement was not met.

(G) Reporting Delinquencies to HUD

(1) Delinquency/Default Status Codes

The Mortgagee must report the correct DDS Code reflecting the status of the Mortgage.

The Mortgagee must include applicable status dates when reporting DDS Codes. The Default status date must reflect the date on which the Mortgage entered the DDS Code reported.

(a) Reporting a New Default Episode

Each new Default episode must be started by reporting DDS Code 42. If there is no open Default episode and the Mortgagee tries to report any other DDS Code, this will not be accepted in SFDMS.

DDS Codes may be repeated each month until another DDS Code applies.

(b) Correction of a Previously Reported Status Code

If a Mortgagee reports a Borrower in Default in error (Status Code 42) for the first time in a Default episode, the Mortgagee must contact HUD at answers@hud.gov for assistance.

When a Mortgagee discovers that the previous Status Code was reported in error, for any other reason, the Mortgagee must:

- report a Status Code 25, Cancel, to advise HUD that the last Status Code reported was in error and should be preserved as a historical record without affecting the Default sequence; and
- report the correct Status Code.

(c) Delinquency Workouts

Delinquency workout DDS Codes represent loss mitigation tools that must be reported upon approval. The Mortgagee must not wait until receipt of funds or executed documents to report applicable DDS Codes.

Loss mitigation DDS Codes must be reported as the last DDS Code for the reporting month if multiple DDS Codes for which additional reporting is required are applicable during the month.

(i) Option Failure

DDS Code AQ must be reported when the Borrower fails to perform or to fulfill obligations made for a Loss Mitigation Option. The Mortgagee must continue to report AQ until another DDS Code applies.

(ii) Trial Payment Plans

The Mortgagee must report the appropriate DDS Code indicating the Loss Mitigation Option for which the Borrower has been approved for a Trial Payment Plan.

(d) Bankruptcy

The Mortgagee must report the appropriate DDS Code indicating the type of bankruptcy filed, if the bankruptcy plan is confirmed, and the type of bankruptcy resolution.

(2) Delinquency/Default Reason Codes

The Mortgagee must report the most applicable reason for the Delinquency/Default using the Delinquency/Default Reason (DDR) Codes. Changes in the reason for Default may occur during the Default episode and must be reported accordingly.

The Mortgagee must ensure that SFDMS reflects the appropriate Default Reason Code for the Default by the 90th Day of delinquency.

(a) Unable to Contact Borrower

The Mortgagee must report DDR Code 31, Unable to Contact Borrower, when the reason for delinquency cannot be ascertained because the Borrower cannot be located or has not responded to the Mortgagee's communication attempts.

If the Mortgagee reports DDR Code 31 in SFDMS, the Mortgagee must document its efforts to contact the Borrower in the Servicing File and must continue to try to determine the reason for Default.

A Mortgagee that establishes contact with the Borrower must report the appropriate reason for Default. If the Mortgagee later loses contact with the Borrower during the Default episode, the Mortgagee must not report DDR Code 31, Unable to Contact Borrower. Mortgagees must instead report the accurate DDR Code, and then may later report DDS Code AP to reflect that no further loss mitigation action can be reported due to loss of contact.

If the Mortgagee reports DDR Code 31 in error, the Mortgage must:

- report a Status Code 25, Cancel, to advise HUD that the last Status Code reported was in error and should be preserved as a historical record without affecting the Default sequence; and
- report the correct Status Code.

(b) Other

The DDR Code for Other must only be used in cases in which there is no other DDR Code to adequately reflect the reason for the Default.

(c) Disasters

The Mortgagee must report the most appropriate reason for the Default when the Borrower has been impacted by a Presidentially-Declared Major Disaster Area (PDMDA). Mortgagees may update to DDR Code A46 as needed. If the Borrower's Property is damaged and the Borrower is experiencing income loss due to the disaster, Mortgagees must report DDR Code A43. Mortgagees must not report DDR Code 019 Casualty Loss for PDMDA damaged properties even if an insurance claim has been filed and is pending.

- Reason Code A43 – Disaster Damaged Property
- Reason Code A45 – Income Loss Due to Disaster
- Reason Code A46 – Unable to Contact Borrower Disaster

(3) Property Occupancy Reporting

The Mortgagee must report to HUD the occupancy status of the mortgaged Property by reporting in SFDMS:

- the Occupancy Status Code as determined either through contact with the Borrower or through Occupancy Inspections; and
- if vacant, the date when the Mortgagee determined that the mortgaged Property became vacant.
  - If the mortgaged Property becomes reoccupied, remove the date.
  - If the mortgaged Property becomes re-vacated, input new date.

The occupancy status code for Unable to Determine Occupancy must be used only in cases in which there is no contact with the Borrower and access to the Property is restricted or prohibitive.

(4) Re-Default After Permanent Home Retention Option Is New Default

If the Mortgage becomes in Default after the Mortgage has been reinstated through the use of a Permanent Home Retention Option, the Mortgagee must report this as a new Default episode.

(5) Reporting Payment Supplement

The Mortgagee must report the use of a Payment Supplement in SFDMS, using DDS Code 51 – Payment Supplement.

- While the Borrower remains in the Payment Supplement Period, the Mortgagee must continue to report DDS Code 51 with the applicable oldest unpaid installment date, including every month the Borrower makes their required payment under the Payment Supplement. If occupancy is not required to be determined, the Mortgagee must report Occupancy Status Code 7 – Occupancy Determination Not Required. The Mortgagee must continue to report the reason for Default determined during the Default episode.
- The Mortgagee must not report DDS Code 20 or 98 if the Payment Supplement is still in effect for the duration of the Payment Supplement Period.

For Borrowers utilizing the Payment Supplement where another delinquent Status Code also applies, the Mortgagee must report DDS Code 51 first followed by any other applicable DDS Codes.

After the completion or termination of the Payment Supplement Period, the Mortgagee must report:

- DDS Code 98 if the Mortgage is current; or
- the applicable code if the Mortgage is not current.

(a) Borrower Resumes Payment After Payment Supplement Period

If the Borrower resumes their monthly Mortgage Payment following the Payment Supplement Period or the Borrower requests to terminate the Payment Supplement and affirms they can resume their full monthly Mortgage Payment, the Mortgagee must report DDS Code 98.

(b) Subsequent Default

For every month the Borrower does not make their required payment under the Payment Supplement, the Mortgagee must report DDS Code 51 with the applicable oldest unpaid installment date indicating that the Mortgage is past due. The Mortgagee must report the applicable Occupancy Status Code and Occupancy Status Date based on the most recent occupancy determination.

If the Borrower does not make their required payment under the Payment Supplement and then reinstates their Mortgage without the use of a Loss Mitigation Option, the Mortgagee must continue to report DDS Code 51 with the applicable oldest unpaid installment date. The Mortgagee must not report DDS Code 20 or 98 as long as the Payment Supplement is still in effect.

(i) Forbearance during Payment Supplement Period

If the Borrower begins a Forbearance during the Payment Supplement Period, the Mortgagee must:

- report the appropriate DDS Code for the Loss Mitigation Option utilized; and
- continue to report DDS Code 51 with the applicable oldest unpaid installment date until new executed loss mitigation documents are received.

(ii) Standalone Partial Claim after Subsequent Default

If the Borrower does not make their required payment under the Payment Supplement and then reinstates their Mortgage with the use of a Standalone Partial Claim, the Mortgagee must:

- report the appropriate DDS Code for the Standalone Partial Claim utilized;
- continue to report DDS Code 51 with the applicable oldest unpaid installment date; and
- not report DDS Code 20 or 98 as long as the Payment Supplement is still in effect.

(iii) Other Loss Mitigation Options after Subsequent Default

If the Borrower does not make their required payment under the Payment Supplement and then reinstates their Mortgage with the use of other Loss Mitigation Options, the Mortgagee must:

- report the appropriate DDS Code for the Loss Mitigation Option utilized;
- continue to report DDS Code 51 with the applicable oldest unpaid installment date until new executed loss mitigation documents are received; and
- report DDS Code 98 upon reinstatement and stop reporting DDS Code 51.

(iv) Option Failure

If the Borrower does not sign and return the Payment Supplement Documents or does not make their required payment under the Payment Supplement and cannot reinstate their Mortgage with or without the use of loss mitigation, the Mortgagee must report DDS Code AQ – Option Failure with the applicable Occupancy Status Code and applicable Occupancy Status Date.

(c) Sale, Refinance, or Other Mortgage Termination

If the Borrower sells the Property, refinances the Mortgage, or otherwise pays the Mortgage in full before the end of the Payment Supplement Period, the Mortgagee must report DDS Code 13.

(d) Assumption

If the Mortgage is assumed before the end of the Payment Supplement Period, the Mortgagee must report DDS Code 21.

(e) Bankruptcy

If the Borrower is in bankruptcy and continues to make their required payment under the Payment Supplement, the Mortgagee is not required to report bankruptcy.

(6) Reporting Foreclosure/CWCOT Outcomes

The Mortgagee must report the DDS Codes that apply to the foreclosure sale, CWCOT, or CWCOT post-foreclosure sale outcomes at the end of each reporting cycle. For Properties marketed post-foreclosure sale, the applicable DDS Code indicating the marketing period must be reported. For all Properties sold, the Mortgagee must report the buyer type.

Mortgagees must report the DDS Codes as follows:

- Status Code 1J – Post-Foreclosure Sales Period
- Status Code 2U – Owner-Occupant Buyer Successful Bidder
- Status Code 2N – Nonprofit Successful Bidder
- Status Code 2G – Governmental Entity Successful Bidder
- Status Code 2I – Investor/Other Successful Bidder
- Status Code 2R – Borrower Successful Bidder
- Status Code 2S – Servicer Successful Bidder

Mortgagees must report one of the existing termination DDS Codes at the conclusion of the Default episode:

- Status Code 46 – Property Conveyed to Insurer; expected to follow 2S, 1J, or 1E when a conveyance claim will be filed with HUD.
- Status Code 48 – Claim Without Conveyance of Title; expected to follow 2U, 2N, 2G, 2I, 2R, or 2S when a CWCOT claim will be filed with HUD.
- Status Code 29 – Charge-off; expected after a 2S when a Mortgagee cannot pursue HUD disposition options and will not file any termination claim with HUD, or has elected not to convey a Property to HUD after foreclosure.

- Status Code 30 – Third-Party Sale; expected to follow 2U, 2N, 2G, or 2I when no claim will be filed with HUD.
- Status Code 73 – Property Redeemed; expected to follow 2S when a Borrower redeems the Property, and no claim will be filed with HUD.

b. Non-Incentivized Loan Modification Reporting (10/01/2025)

The Mortgagee must report the characteristics of all Loan Modifications for which no claim is filed in FHA Connection (FHAC) within 90 Days of the executed Loan Modification. These characteristics are the following:

- Mortgage Amount – The amount of the modified Mortgage.
- Interest Rate – The new interest rate for the modified Mortgage.
- Agreement Date – This must be before the new first payment date and at least 90 Days from the last agreement date. It is recommended that the execution date is entered in this field. For instances in which this is not possible, the approval date may be used.
- First Payment Date – The new first payment due date after the Mortgage was modified.
- Maturity Date – The new maturity date for the modified Mortgage.

B. TITLE II INSURED HOUSING PROGRAMS REVERSE MORTGAGES

This section provides the standards and procedures applicable to the servicing of Home Equity Conversion Mortgages (HECM) insured under Section 255 of the National Housing Act. The Mortgagee must fully comply with all of the following standards and procedures when servicing a HECM insured by the Federal Housing Administration (FHA).

1. Servicing of FHA-Insured HECMs

Only FHA-approved Mortgagees may service FHA-insured HECMs. Mortgagees may service HECMs they hold or that are held by other FHA-approved Mortgagees.

a. Servicing in Compliance with Law (04/29/2024)

i. Definitions

The Mortgage Holder (Holder) is the entity who holds title to the FHA-insured HECM and has the right to enforce the mortgage agreement.

The Mortgage Servicer (Servicer) refers to the entity responsible for performing servicing actions on FHA-insured HECMs on its own behalf or on behalf of or at the direction of another FHA-approved Mortgagee.

ii. Standard

Holders must ensure all FHA-insured HECMs are serviced by a Servicer in accordance with FHA requirements and all applicable laws.

Servicers must service all FHA-insured HECMs in accordance with FHA requirements and all applicable laws.

(A) Laws Applicable to Mortgage Servicing

Mortgagees must comply with all laws, rules, and requirements applicable to mortgage servicing, including requirements under the purview of the Consumer Financial Protection Bureau (CFPB), the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA), as may be made applicable to HECMs.

FHA requirements that are more stringent or restrictive than those provided for in applicable law are set forth in this Handbook 4000.1 and the Mortgagee must comply with these requirements.

(B) Contract Terms

The Mortgagee must comply with the HECM contract terms unless doing so would result in violation of a more stringent or restrictive statute.

(C) Nondiscrimination Policy

Mortgagees must comply with all antidiscrimination laws, rules, and requirements applicable to servicing FHA-insured HECMs, including full compliance with the applicable requirements of:

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act, 15 U.S.C. § 1681–1681x; and
- the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691–1691f.

The Mortgagee must make a financial assessment in a uniform matter that shall not discriminate due to race, color, religion, sex, national origin, familial status, disability, marital status, source of income of the Borrower, or location of the Property, or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act (15 U.S.C. § 1601 et. seq).

b. Responsibility for Servicing Actions (04/29/2024)

Holders are responsible for all servicing actions, including the acts of its Servicers.

Servicers are responsible for their actions in servicing FHA-insured HECMs, including actions taken on behalf, or at the direction, of the Holder.

The costs associated with servicing must not be imposed on the Borrower or passed along to HUD in a claim for mortgage insurance benefits, except for a servicing fee if agreed upon by the Borrower at origination.

i. Responsibility during Transfers of Servicing Rights

(A) Definitions

The Transferor Servicing Mortgagee refers to the Mortgagee that transfers servicing responsibilities.

The Transferee Servicing Mortgagee refers to the Mortgagee to which the servicing responsibilities have been transferred.

The Transfer Date refers to the effective date the servicing of any HECM is transferred from one servicing Mortgagee to another.

(B) Standard

The Transferor Servicing Mortgagee remains responsible for the servicing of an FHA-insured HECM until the Transfer Date. The Transferor Servicing Mortgagee must verify that the change of legal rights to service has been accurately reported to HUD.

On the Transfer Date, the Transferee Servicing Mortgagee assumes responsibility for:

- all servicing actions, including ensuring resolution of any servicing errors that were, and remain, the responsibility of the Transferor Servicing Mortgagee;
- obtaining the complete HECM file, including origination and servicing records; and
- ensuring that the original Note and Mortgage are preserved.

(C) Required Documentation

The Transferor Servicing Mortgagee must report the Transfer Date and update the mortgage record in Home Equity Reverse Mortgage Information Technology (HERMIT) within 15 Days of the Transfer Date.

ii. Responsibility for Servicing when the Mortgage is Sold

(A) Definitions

A Mortgage Sale refers to a transaction in which a Holder sells the Mortgage to another FHA-approved Mortgagee.

The Purchasing Mortgage Holder or Purchasing Mortgagee is the Mortgagee that purchases the Mortgage and thereby succeeds to all rights and obligations of the Selling Mortgage Holder under the contract for mortgage insurance.

The Selling Mortgage Holder or Selling Mortgagee is the Mortgagee that sells the Mortgage and thereby relinquishes all rights and obligations under the contract for mortgage insurance.

(B) Standard

The Selling Mortgagee remains responsible for Mortgage Insurance Premiums (MIP) until notice of the sale is received by HUD via HERMIT.

As of the effective date of the sale, the Purchasing Mortgagee becomes responsible for outstanding MIP obligations, regardless of the date of accrual, and must confirm that the details of the mortgage sale have been reported accurately.

(C) Required Documentation

The Selling Mortgagee must report the date of the sale of the Mortgage as the "Transfer Date" and update the mortgage record in HERMIT within 15 Days of the date of the sale.

iii. Registration with Mortgage Electronic Registration System, Inc.

(A) Definition

The Mortgage Electronic Registration System (MERS) is an electronic tracking system identified as the nominee for a Holder of a Mortgage.

(B) Standard

Mortgagees may voluntarily register FHA-insured HECMs with MERS.

c. Providing Information to HUD (04/29/2024)

The Mortgagee must respond to verbal or written requests for individual account information, including all servicing information and related data and the entire mortgage origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the Borrower.

When HUD staff request information, the Mortgagee must make available legible documents, in the format (electronic or hard copy) requested within 24 hours of the request, or as otherwise permitted by HUD.

d. Communication with Borrowers and Authorized Third Parties (04/29/2024)

i. Definition

Authorized Third Parties refer to parties who are not Borrowers on the Mortgage but who are authorized to communicate with the Mortgagee regarding a Mortgage.

ii. Standard

The Mortgagee must provide mortgage information and arrange for individual consultation, upon request by the Borrowers.

The Mortgagee must comply with all laws, rules, and requirements applicable to third-party access to mortgage information.

iii. Required Documentation

If communicating with an Authorized Third Party, the Mortgagee must include documentation of the authorization in the servicing binder:

- a copy of a signed authorization from the Borrower;
- a copy of a Power of Attorney (POA), order of guardianship, or other legal documentation authorizing that third party to act on behalf of the Borrower; or
- other legal documentation showing authorization to access the Borrower's records.

e. Borrower Disbursements (04/29/2024)

i. Definition

Borrower Disbursements are all disbursements made to a Borrower from available HECM funds.

ii. Standard

Mortgagees must make all payments to the Borrower according to the current payment plan so long as the HECM is not Due and Payable subject to the Initial Disbursement Limit.

iii. Payment Plans

(A) Tenure Payment Option

The tenure payment option is available for adjustable rate HECMs. The Borrower receives fixed monthly payments so long as the HECM is not prepaid in full or becomes Due and Payable, or the payments do not exceed any maximum mortgage amount stated in the security instrument or would otherwise exceed the amount secured, even if the payments exceed the Borrower's available Principal Limit.

(B) Term Payment Option

The term payment option is available for adjustable rate HECMs. The Borrower receives equal monthly payments for a term of months so long as the HECM is not prepaid in full or becomes Due and Payable, or the payments do not exceed any maximum mortgage amount stated in the security instrument or would otherwise exceed the amount secured by the first HECM lien, even if the payments exceed the Borrower's available Principal Limit.

(C) Line of Credit Payment Option

The line of credit payment option is available for adjustable rate HECMs. The Borrower receives unscheduled payments at times and in amounts of the Borrower's choosing.

(D) Modified Tenure Payment Option

The modified tenure payment option is available for adjustable rate HECMs. The Borrower must set aside a portion of the Principal Limit as a line of credit from which to draw at times and in amounts of their choosing, and receives the rest in equal monthly payments so long as the HECM is not prepaid in full or becomes Due and Payable, or the payments do not exceed any maximum mortgage amount stated in the security instrument or would otherwise exceed the amount secured by the first HECM lien.

(E) Modified Term Payment Option

The modified term payment option is available for adjustable rate HECMs. The Borrower must set aside a portion of the Principal Limit as a line of credit from which to draw at times and in amounts of their choosing and receives the rest in equal monthly payments for a term of months selected by the Borrower.

(F) Single Lump Sum Payment Option

The single lump sum payment option is only available for fixed rate HECMs. The Borrower receives a single Disbursement at closing. After closing, the Mortgagee must not disburse HECM proceeds to the Borrower, except from a Set-Aside established at closing.

iv. Payment Plan Changes

(A) Voluntary Payment Plan Changes

The Borrower can request to change the payment plan at any time during the life of the HECM, unless the Borrower chose a lump sum payment plan at closing. The Mortgagee may charge a fee, not to exceed $20, for changing the Borrower's payment plan.

(1) Standard

The Mortgagee must send the Borrower a written explanation of the terms, including the option for the Borrower to sign and return the new payment plan, within five business days of receipt of the Borrower's request for a new payment plan. The Mortgagee must complete the payment plan change within five business days of receipt of the new signed payment plan from the Borrower.

(2) Required Documentation

The Mortgagee must retain copies of the written explanation sent to the Borrower and the signed payment plan received from the Borrower in the Servicing File for the HECM.

(B) Required Payment Plan Changes

The Mortgagee must change a Borrower's payment plan when:

- a Borrower with a term or tenure payment plan has funds remaining in a Repair Set-Aside after all repairs are completed and paid in full;
- payments that have been suspended for more than six months resume; or
- the Borrower has failed to make a required property charge payment before the due date and the Borrower does not have sufficient available funds in an existing line of credit to pay the expense, but does have funds available if monthly payments are converted to a line of credit.

(1) Definition

Property Charges refer to obligations of the Borrower that include:

- property taxes;
- Hazard Insurance premiums;
- applicable Flood Insurance premiums;
- Ground Rents;
- Homeowners' Association (HOA)/Condominium Fees;
- Planned Unit Development (PUD) fees; and
- other special assessments that may be levied by municipalities or state law.

(2) Standard

When a payment plan change is required, the Mortgagee must modify the Borrower's payment plan and provide written notice to the Borrower of the new payment plan and the reason for the payment plan change within five business days of the payment plan change.

(3) Required Documentation

Mortgagees must keep documentation of the reason for the payment plan change and the notice provided to the Borrower in the Servicing File.

v. Late Charges

(A) Standard

The Mortgagee must pay a Late Charge and interest to the Borrower for any scheduled disbursement made after the first business day of the month or any line of credit payment made more than five business days after the receipt of request for disbursement as follows:

For HECMs with case numbers assigned before September 19, 2017:

- 10 percent of the amount of the payment due to the Borrower; and
- interest at the daily HECM Note interest rate on the late payment for each Day the payment is late, the total of which shall not exceed $500.

For HECMs with case numbers assigned on or after September 19, 2017:

- 10 percent of the amount of the payment due to the Borrower, not to exceed $500 on a single late payment; and
- interest at the daily HECM Note interest rate on the late payment for each Day the payment is late.

If the HECM has an adjustable interest rate, the rate in effect when the Late Charge first begins to accrue must be used.

For each additional day that the Borrower does not receive payment, the Mortgagee shall pay interest at the mortgage interest rate on the late payment. The Mortgagee must pay any Late Charges and interest from Mortgagee funds and must not add them to the outstanding HECM balance.

(B) Required Documentation

The Mortgagee must include documentation of the Late Charges and interest paid to the Borrower in the Servicing File. This must include the amount of the Late Charge and interest paid, the date that the payment was made, and evidence of the method by which the payment to the Borrower was made.

vi. Initial Disbursement Limit

Monitoring and Tracking Disbursements

During the First 12-Month Disbursement Period, the Mortgagee must monitor and track all Disbursements to ensure that the total of all Disbursements does not exceed the Initial Disbursement Limit.

vii. Required Documentation

The Mortgagee must:

- maintain a transaction history that includes the amount and date of each Disbursement;
- upload all transactions to HERMIT by the last Day of the month; and
- retain copies of all written requests for funds in the Servicing File including the date the request was received.

viii. Mortgagee Unable or Unwilling to make Required Borrower Payments

When the Commissioner determines the Mortgagee is unable or unwilling to make payments to a Borrower owed under the HECM, the Mortgagee must ensure the following information is provided and accurate in the Home Equity Reverse Mortgage Information Technology (HERMIT) system:

- FHA case number;
- payment plan type;
- disbursement type (scheduled or unscheduled);
- payment amount;
- payment method – check or Automated Clearing House (ACH) transfer; and
- bank routing number and account number for ACH transfers.

A Mortgagee must provide the above referenced information to the HERMIT system via the HERMIT Secure File Transfer Protocol (SFTP) Server no later than one business day following the date the Borrower payment should have been made. This information must be provided in an Excel spreadsheet or Comma Separated Values (.csv) file. The Mortgagee

must also send an email to servicingsupport@hermitsp.com and answers@hud.gov notifying all parties that a file has been uploaded. Mortgagees must not send the file directly through email. In the event this process needs to be initiated and a Mortgagee does not know how to access the HERMIT SFTP site, please contact servicingsupport@hermitsp.com for instructions.

f. Payment Administration (04/29/2024)

i. Receipt of Payments

(A) Definition

Payments are any funds remitted to the Mortgagee to reduce the balance owed under the HECM.

(B) Standard

The Mortgagee must either use a Trust Clearing Account or special custodial account to hold all payments on the insured Mortgage.

The Mortgagee's Trust Clearing Account may be used for collections received on all types of Mortgages. If a Trust Clearing Account is not used, the Mortgagee must immediately transfer payments into a special custodial account.

ii. Application of Payments

Mortgagees must apply Borrower payments in the following order:

- to MIPs due, if any;
- to servicing fees, if any;
- to interest on the Mortgage; and
- to the principal of the Mortgage.

iii. Trustee's Fees for Satisfactions

If specifically provided for in the security instrument, the Mortgagee may charge the Borrower the amount of the trustee's fee, plus any reasonable and customary fees for payment, or for the execution of a satisfaction, release, or trustee's deed when the debt is paid in full.

iv. Recording Fees for Satisfactions

The Mortgagee may charge the Borrower a reasonable and customary fee for recording satisfactions in states where recordation is not the responsibility of the Mortgagee.

g. Servicing Fees and Charges (04/29/2024)

i. Definitions

Allowable Fees and Charges are those costs associated with the servicing of the Mortgage that are permitted to be charged to the Borrower.

Prohibited Fees and Charges are those costs associated with the servicing of the Mortgage that may not be charged to the Borrower.

ii. Standard

(A) Allowable Fees and Charges

The Mortgagee may collect certain reasonable and customary fees and charges from the Borrower after the Mortgage is insured and as authorized by HUD below. All fees must be:

- reasonable and customary for the local jurisdiction;
- based on actual cost of the work performed or actual out-of-pocket expenses and not a percentage of either the face amount or the unpaid principal balance of the Mortgage; and
- within the maximum amount allowed by HUD.

(B) Request for Approval for Other Fees or Charges

The Mortgagee may request approval from HUD through HERMIT for any fee, charge, or unusual service not specifically mentioned in this Handbook 4000.1.

(C) Prohibited Fees and Charges

The Mortgagee must not charge the Borrower for the following services:

- costs of telephone calls, personal visits with the Borrower, certified mail, or other activities that are normally considered a part of a prudent Mortgagee's servicing activity;
- Mortgagee's use of an independent contractor such as a tax service to furnish tax data and information necessary to pay property taxes or make the payments on behalf of the Mortgagee;
- preparing and providing evidence of Payoff, Reconveyance, or termination of the Mortgage, except for a trustee's fee if the deed of trust provides for payment of such a fee for execution of a satisfactory, release, or trustee's deed when the deed of trust is paid in full;
- providing information essential to the Payoff;
- recording the Payoff of the Mortgage in states where recordation is the responsibility of the Mortgagee; or
- fees for services performed by attorneys or trustees who are salaried members of the Mortgagee's staff.

iii. Required Documentation

The Mortgagee must include in the Servicing File:

- documentation of the amount of any fees and charges paid or payable by the Borrower; and
- documentation supporting the actual costs of any work performed or out-of-pocket expenses.

h. Interest Rate Changes for Adjustable Rate HECMs (04/29/2024)

i. Definition

Adjustable Rate HECMs refer to HECMs for which the interest rate will be adjusted periodically (monthly or annually) based on the Borrower's election at closing.

ii. Determining Periodic Adjustments to the Note Interest Rate

When determining the Note interest rate and subsequent rate adjustments, the Mortgagee must use an index type approved by the Secretary. The margin is the same margin used to determine the initial Note interest rate and the periodic adjustments to the Note interest rate.

When adjusting the rate for the Constant Maturity Treasury (CMT) Index, the Mortgagee must:

- use the one-month or one-year CMT rate in effect 30 Days before the change date; and
- provide the Borrower with a Notice of Interest Rate Change at least 25 Days before an adjustment to the interest rate.

When adjusting the rate for the Standard Overnight Financing Rate (SOFR) Index, the Mortgagee must:

- use the 30-day average SOFR rate in effect 30 Days before the change date; and
- provide the Borrower with a Notice of Interest Rate Change at least 25 Days before an adjustment to the interest rate.

iii. Notice of Rate Change

The Notice of Interest Rate Change must advise the Borrower of the following:

- the new HECM interest rate;
- the current index value; and
- the publication date of the index.

iv. Required Documentation

The Mortgagee must retain in the Servicing File:

- supporting documentation of the interest rate used in the adjustment; and
- a copy of the Notice of Interest Rate Change sent to the Borrower.

i. Set-Asides (04/29/2024)

i. Definition

A Set-Aside refers to an amount of funds withheld by the Mortgagee from the Borrower's HECM funds for payment of certain fees and expenses. Set-Aside types include:

- Repair Set-Asides
- Property Charge Set-Asides
- Servicing Fee Set-Asides

ii. Standard

Set-Aside funds remain part of the Borrower's HECM proceeds, are non-interest bearing, and must not be held in an escrow account. When the funds are disbursed, the Mortgagee must add the actual payments to the HECM balance. The Mortgagee must manage Set-Aside funds in accordance with requirements for each specific Set-Aside type.

iii. Repair Set-Aside

(A) Definitions

Repair Set-Aside refers to an amount withheld from the HECM proceeds to fund repairs required to bring the mortgaged Property into compliance with MPS.

(B) Standard

When required repairs are completed and such completion is confirmed by the Mortgagee through an inspection, the Mortgagee shall release funds from the Repair Set-Aside and ensure that all mechanic's and materialmen's liens are released of record.

The Mortgagee must only disburse funds from a Repair Set-Aside during a Deferral Period if the repairs are completed satisfactorily during the time period established in the Repair Rider, or within any additional time approved by HUD.

(C) Required Documentation

The Mortgagee shall retain copies of all inspections performed to ensure completion of the required repairs and copies of all invoices paid from the Repair Set-Aside in the Servicing File.

iv. Property Charge Set-Aside

(A) Definitions

Property Charge Set-Aside refers to a portion of a Borrower's Principal Limit that is designated for payment of Property Charges. A Property Charge Set-Aside can result

from a Borrower being required to establish a Life Expectancy Set-Aside (LESA) or when a Borrower elects to have the Mortgagee pay Property Charges on their behalf.

Fully Funded Life Expectancy Set-Aside (LESA) refers to a portion of the Borrower's Principal Limit that is designated for payment of property taxes, including special assessments levied by municipalities or state law, Hazard Insurance, and, if applicable, Flood Insurance for the estimated remainder of the Borrower's life expectancy. With a Fully Funded LESA, the Mortgagee makes payments directly to the billing agency. A Borrower can voluntarily elect to have a Property Charge Set-Aside created at closing. If the Borrower chooses this option, the Property Charge Set-Aside will function as though it were a Fully Funded LESA.

Partially Funded Life Expectancy Set-Aside (LESA) refers to a portion of the Borrower's Principal Limit that is designated for partial payment of property taxes, Hazard Insurance, and, if applicable, Flood Insurance for the estimated remainder of the Borrower's life expectancy. With a Partially Funded LESA, the Mortgagee makes payments to the Borrower who is responsible for the remaining amounts owed and delivering the full payment to the billing agency.

(B) Standard

(1) Fully Funded Life Expectancy Set-Aside and Voluntary Election Property Charge Payment

When servicing HECMs for which Property Charges are paid through a Fully Funded LESA, the Mortgagee must ensure that:

- payments are disbursed before bills become delinquent. If the payments are disbursed after the bills become delinquent, the Mortgagee must pay any late fees, interest, and other charges from its own funds;
- early payments are made to take advantage of a discount, whenever it is to the Borrower's benefit;
- LESA funds are not held in an escrow account; and
- payments for LESA charges are added to the HECM balance when the Mortgagee disburses funds to the taxing authority, insurance carrier, or another entity that the property charge is owed to.

The Mortgagee must provide the Borrower notification in writing that:

- funds will be used to pay the taxing authority or insurance carrier directly;
- the Mortgagee is responsible for making timely payments to the taxing authority or insurance carrier when funds are sufficient;
- the projected amount of funds required to cover the allowed LESA charges over the estimated life expectancy of the youngest Borrower may be insufficient to cover LESA charges for the full length of that specified amount of time;
- no funds will be available during any applicable Deferral Period for an Eligible Non-Borrowing Spouse (NBS); and

- the Borrower is responsible for the payment of all Property Charges, including LESA charges, over the life of the HECM when funds are insufficient or the balance of the LESA is zero.

(2) Partially Funded Life Expectancy Set-Aside

When servicing HECMs for which funds are distributed to the Borrower from a Partially Funded LESA, the Mortgagee must ensure that:

- funds are not held in an escrow account;
- funds are disbursed to the Borrower semiannually;
- the taxing authority and/or insurance carrier received the Borrower's payment; and
- the semiannual Disbursements to the Borrower are added to the HECM balance when disbursed.

If the remaining Set-Aside funds are insufficient to make the next semiannual payment, or the Set-Aside balance is zero, the Mortgagee must, within 30 Days of receipt of a property charge bill:

- notify the Borrower in writing that they are responsible for making all future payments with non-HECM funds; and
- recommend to the Borrower that they contact a HUD-approved Housing Counselor to receive counseling services including viable alternatives to comply with the terms of the HECM.

The Mortgagee must provide the Borrower notification in writing that:

- the Borrower will receive semiannual payments from the Set-Aside, which must be used to pay the taxing authority and insurance carrier;
- the Borrower is responsible for making timely payments to the taxing authority and insurance carrier over the life of the HECM;
- the projected amount of funds required to cover defined Property Charges over the estimated life expectancy of the youngest Borrower and the income assumptions used to project semiannual distributions to the Borrower may be insufficient to cover LESA charges for the full length of that specified amount of time;
- no funds will be available during any applicable Deferral Period for an Eligible NBS; and
- the Borrower will no longer receive semiannual payments and will continue to be responsible for the payment of the Property Charges, including LESA charges, over the life of the HECM when funds are insufficient or the balance of the Set-Aside is zero.

(3) Insufficient Property Charge Set-Aside Funds to Make Payment

If the Property Charge Set-Aside funds are insufficient, the Mortgagee must use the remaining funds available in the Set-Aside and:

- if the Borrower has a line of credit, deduct the remaining amount for the payment from the line of credit; or
- if the Borrower does not have a line of credit, adjust the Borrower's payment plan to accommodate the Disbursement.

If funds are still insufficient, the Mortgagee must advance corporate funds and the HECM may be eligible to be called Due and Payable.

(C) Required Documentation

The Mortgagee must document in its Servicing File its efforts to obtain the billing information from the Borrower, billing agency, or the taxing authority.

The Mortgagee must also:

- maintain a transaction history that includes the amount and date of each Disbursement;
- upload all transactions to HERMIT by the last Day of the month in which the Disbursement is made; and
- retain date-stamped copies of all bills paid in the Servicing File.

v. Servicing Fee Set-Asides

(A) Definition

Servicing Fee Set-Aside refers to an amount withheld from the HECM proceeds for the payment of the monthly servicing fee.

(B) Standard

Mortgagees must disburse funds each month from the Servicing Fee Set-Aside for any HECM that has a monthly servicing fee and add the amount disbursed to the HECM loan balance.

(C) Required Documentation

The Mortgagee shall maintain an accurate transaction history reflecting the monthly servicing fee disbursement and must upload the transaction to HERMIT monthly.

j. Allowable Fees and Charges (04/29/2024)

i. Definition

Allowable Fees and Charges refer to those costs associated with the servicing of the Mortgage that are permitted to be charged to the Borrower.

(A) Monthly Servicing Fee

(1) Definition

A Monthly Servicing Fee is a fixed monthly charge for servicing activities of the Mortgagee starting in the month of loan closing and continuing through the life of the loan, including any applicable Deferral Period.

The maximum allowable monthly servicing fee for a HECM with a monthly adjustable interest rate is $35.

The maximum allowable monthly servicing fee for a HECM with a fixed or annually adjustable interest rate is $30.

(2) Standard

If the Mortgagee chose to assess a monthly servicing fee at closing, the Mortgagee must withdraw the monthly servicing fee from the existing Servicing Fee Set-Aside and add the amount of the monthly servicing fee to the HECM balance.

(B) Additional Permissible Reasonable and Customary Fees and Charges

The Mortgagee may collect reasonable and customary fees and charges that are not already paid with funds from the monthly servicing fee after the HECM is insured and as authorized by HUD below. All fees must be:

- reasonable and customary for the local jurisdiction;
- based on actual cost of the work performed or actual out-of-pocket expenses and not a percentage of either the face amount or the unpaid principal balance of the HECM; and
- within the maximum amount allowed by HUD.

No attorney fees may be charged for the services of the Mortgagee's attorney.

The Mortgagee may assess and add the following fees and charges to the outstanding principal balance:

- a maximum of $20 for changing a Borrower's payment plan;
- charges and fees related to additional documents described in 24 CFR § 206.27(b)(10) and related title search costs;
- substitution of Hazard Insurance policy other than at the renewal of the policy;
- attorney or trustee fees associated with a foreclosure;
- property inspections and preservation expenses; and
- attorney fees and expenses when the Mortgagee is made a party to litigation by reason of the HECM.

(C) Requests for Approval for Other Fees or Charges

The Mortgagee may request approval from HUD for any fee, charge, or unusual service not specifically mentioned.

ii. Required Documentation

The Mortgagee must include in the Servicing File:

- documentation of the amount of any fees and charges paid or payable by the Borrower;
- approval from HUD for any fees and charges requiring such approval; and
- documentation supporting the actual cost of any work performed or out-of-pocket expenses.

k. Prepayment (04/29/2024)

i. Definition

A Prepayment in Full, or Payoff, refers to the payment in whole of the principal amount of the HECM in advance of expiration of the term of the HECM.

ii. Standard

The Mortgagee must accept a prepayment of a HECM in whole or in part without penalty to the Borrower.

iii. Prepayment Procedures

If the Borrower prepays the HECM in full, the HECM is terminated.

iv. Trustee Fees for Satisfaction

The Mortgagee must operate in accordance with the security instrument when preparing the satisfaction. If the security instrument allows, the Mortgagee may charge the Borrower:

- the amount of the trustee's fee including any reasonable and customary fees; or
- for the execution of a satisfaction, the release of trustee's deed when the debt is paid in full.

v. Recordation Fees for Satisfactions

The Mortgagee may charge the Borrower for recordation fees incurred where the cost of recordation is not the responsibility of the Mortgagee in accordance with state, local, and tribal law.

vi. Application of Prepayments

The Mortgagee must apply Borrower payments in accordance with the HECM Note and in the following order:

- MIPs;
- servicing fees;
- interest; and
- principal.

vii. Application of Partial Prepayments

(A) Definition

A Partial Prepayment refers to a payment of part of the principal amount before the date on which the principal is due.

(B) Standard

The Mortgagee must allow the Borrower to make a Partial Prepayment at any time. The Mortgagee must apply Partial Prepayments in accordance with the mortgage Note and in the following order:

- MIPs;
- servicing fees;
- interest; and
- principal.

The Mortgagee must not provide a Borrower with a fixed rate HECM with any additional funds, regardless of a Partial Prepayment.

For Borrowers with an adjustable interest rate and for whom a Partial Prepayment results in additional Principal Limit to become available to the Borrower, the Mortgagee must allow the Borrower to determine how the additional Principal Limit is used. The Borrower may choose to:

- increase monthly payments by reducing the outstanding balance and increasing the Net Principal Limit (NPL) available;
- set up or increase a line of credit without altering existing monthly payments by reducing the outstanding balance and increasing the NPL; or
- continue payments that have ceased or are nearing cessation.

If the Borrower does not designate an account, the Mortgagee must apply any funds going toward the principal to:

- an existing line of credit; or
- create a new line of credit in accordance with the HECM loan agreement.

Any change in subsequent payments to the Borrower must be made only at the Borrower's request or to accommodate payment of expenses on the Borrower's behalf.

l. Completion of Required Repairs (04/29/2024)

i. Definition

Completion of Repairs refers to an agreement the Borrower may have entered into at closing to complete required repairs after closing. The provisions of this agreement are contained in the Repair Rider to the Loan Agreement that the Borrower signed at closing.

ii. Standard

The Mortgagee must adhere to the provisions of the Repair Rider and ensure that the repairs are completed and inspected before funds for repairs are disbursed. When the required repairs are completed, the Mortgagee must:

- complete and sign form HUD-92051, *Compliance Inspection Report*;
- during the First 12-Month Disbursement Period, change the payment plan, if available under the Initial Disbursement Limit, and disburse from an existing line of credit. If sufficient funds are not available in the line of credit to cover the cost of repairs, recalculate future payments and provide an unscheduled payment;
- after the First 12-Month Disbursement Period, change the payment plan and disburse from an existing line of credit. If sufficient funds are not available in the line of credit to cover the cost of repairs, recalculate future payments and provide an unscheduled payment;
- disburse jointly to the Borrower and the contractor(s) funds equal to the cost of the repairs;
- add the amount of the disbursements to the outstanding HECM balance when the payment is made;
- after disbursing funds to pay for all required repairs, if there are excess funds in the Repair Set-Aside, send the Borrower with an adjustable rate HECM a notice which states the remaining funds are available in the line of credit, which the Borrower is encouraged to maintain to meet unexpected expenses;
- reimburse Borrowers for the actual cost of repair materials from the Repair Set-Aside, but must not reimburse for any labor the Borrower performed;
- not make additional funds available to the Borrower with a fixed rate HECM, regardless of any funds remaining after the funds are disbursed for repairs, except that a Borrower may be reimbursed for the cost of repair materials (not including labor); and
- where the required repairs are not completed by the date specified on the Repair Rider, or any additional time as approved by HUD (not to exceed 12 months from closing), suspend all payments until the repairs are satisfactorily completed.

iii. Required Documentation

The Mortgagee must retain in the Servicing File, copies of the following:

- inspections after the required repairs are completed;
- the completed and signed form HUD-92051;
- a signed mechanic's or materialman's lien release, if applicable;

- invoices or sales receipts for any materials that the Borrower ordered and paid and for which the Borrower is reimbursed; and
- checks payable to the Borrower and contractors.

m. Insurance Coverage Administration (04/29/2024)

i. Hazard Insurance

(A) Standard

The Borrower is required to have, and maintain for the life of the HECM, Hazard Insurance, but may at any time instruct the Mortgagee to purchase and make payments for this insurance from available Principal Limit, when such funds are available. HUD and the Mortgagee may determine hazards which must be insured against.

The Mortgagee must purchase and make payments for Hazard Insurance where the Borrower has required the Mortgagee to do so.

The Mortgagee must:

- maintain the amount for the period of time that is necessary to protect the Mortgagee's investment;
- be named as a "Loss Payee" on the Hazard Insurance policy; and
- set aside sufficient funds for the payment of the renewal premium.

If the Borrower chooses to be responsible for obtaining Hazard Insurance, the Mortgagee must obtain from the Borrower a copy of the insurance policy and evidence that the policy is renewed upon expiration. If the Borrower does not provide evidence that the policy has been renewed, the Mortgagee must proceed with the steps outlined in Lender-Placed Insurance.

(B) Required Documentation

The Mortgagee must retain in the Servicing File an annually issued certificate of insurance that is sufficiently detailed or a complete copy of the insurance policy to establish that the insurance meets the standard.

ii. Insurance on Units in a Condominium Unit

(A) Hazard

(1) Standard

The Mortgagee must verify that the Property is insured in the amount required under the Hazard Insurance section if the Condominium Association does not maintain Hazard Insurance in accordance with such requirements.

(2) Required Documentation

The Mortgagee must retain in the Servicing File a certificate of insurance that is sufficiently detailed or a complete copy of the insurance policy to establish that the insurance meets the standard.

(B) Walls-In (HO-6)

(1) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In coverage policy (HO-6) if the master or blanket policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage, to insure improvements that the Borrower may have made to the unit. The total coverage of both policies must equal 100 percent of the required Hazard Insurance amount.

(2) Required Documentation

The Mortgagee must retain in the Servicing File an annually issued certificate of insurance that is sufficiently detailed or a complete copy of the insurance policy to establish that the insurance meets the standard.

iii. Payment of Renewal Premium

(A) Standard

When the Borrower has required the Mortgagee to purchase Hazard Insurance, the Mortgagee must pay the renewal premium when it is due.

If the Borrower is required to pay the premium and fails to do so, the Mortgagee must:

- advance funds from the line of credit; or
- change the payment plan, if needed, and advance the funds.

(B) Required Documentation

Where the Borrower has required the Mortgagee to purchase Hazard Insurance or the Mortgagee advanced the funds because the Borrower failed to pay the renewal premium, the loan history must reflect each transaction as it is disbursed. In addition, the Mortgagee must retain in its Servicing File copies of:

- the premium renewal notice;
- the check payable to the insurance company; and
- any required payment plan change.

Where the Borrower pays the renewal premium, the Mortgagee must obtain a copy of the declaration page of the policy with evidence of the new expiration date, or other documentation from the hazard insurance provider that contains:

- name of the insured;
- address of insured Property;
- type of coverage;
- insurance policy number;
- insurance policy limits;
- effective date of the insurance policy;
- expiration date of the insurance policy;
- name and contact information for the insurer; and
- annual insurance premium.

iv. Fee for Change in Hazard Insurance Policy

The Mortgagee may assess a reasonable and customary fee, up to the amount listed in Appendix 3.0 – Post-endorsement Fees and Charges by Location, for processing the Borrower's request to change hazard insurance coverage when the existing policy has not yet expired.

v. Flood Insurance

(A) Standard

For Properties located within a Special Flood Hazard Area (SFHA), the Mortgagee must ensure that Flood Insurance is maintained for the life of the HECM. Flood Insurance must be an amount at least equal to the lesser of:

- 100 percent of the replacement cost of the insurable value of property improvements, which consists of the development or project cost less the estimated land cost at the time of closing;
- the maximum amount of the National Flood Insurance Program (NFIP) insurance available with respect to the particular type of property; or
- the outstanding principal balance of the HECM. Where the outstanding principal balance of the HECM is used to determine the amount of Flood Insurance coverage, the Flood Insurance must be adjusted each renewal cycle to cover an amount at least equal to the outstanding principal balance at the end of the insurance coverage period.

If remapping causes a Property securing a HECM to become located in an SFHA, the Mortgagee must enforce HUD's flood insurance requirements on coverage amounts and maintenance.

(B) Required Documentation

The Mortgagee must retain in the Servicing File an annually issued certificate of insurance that is sufficiently detailed or a complete copy of the insurance policy to establish that the insurance meets the standard.

vi. Lender-Placed Insurance

(A) Definition

Lender-Placed Insurance refers to Hazard and/or Flood Insurance purchased by the Mortgagee when the Borrower fails to renew the applicable required policy.

Reasonable Rate refers to a rate that does not exceed the rate or advisory rate set by the principal state-licensed rating organization for essential property insurance in the voluntary market or, if coverage is available under a Fair Access to Insurance Requirements (FAIR) Plan, the FAIR Plan rate. For states without a principal state-licensed rating organization or FAIR Plan, the Mortgagee must provide to FHA information concerning the lowest rates available from an insurer for the types of coverage involved, with a request for a determination of whether the rate is reasonable. FHA will determine a rate is reasonable if it is the lowest rate available from an insurer for the types of coverage involved that approximates the rate assessed for comparable insurance coverage applicable to similarly situated properties in a state that offers a FAIR Plan or maintains a state-licensed rating organization.

(B) Standard

If the Borrower fails to renew or provide evidence of acceptable property insurance coverage when required, the Mortgagee must purchase a lender-placed Hazard and/or Flood Insurance where Flood Insurance is required. The Mortgagee may, at its discretion, obtain more coverage than is necessary to protect the Mortgagee's interest.

All insurance policies must be obtained at a reasonable rate.

vii. Hazard or Flood Insurance Proceeds

(A) Insurance Claims

The Mortgagee must take necessary steps to ensure that hazard or flood insurance claims are filed and settled as expeditiously as possible.

(B) Loss Settlement Amounts for Borrower Expenses and Personal Property

The Mortgagee must promptly release to the Borrower all insurance settlement proceeds received for coverage of a Borrower's Personal Property, temporary housing, and other transition expenses. The Mortgagee may not withhold

Disbursement of such proceeds to cover an existing arrearage, such as a property charge advance, without the written consent of the Borrower.

(C) Insurance Proceeds for Home Damage

(1) Definition

A Viable Repair Plan refers to a plan for repairs of a mortgaged Property within the amounts available through insurance proceeds and borrower funds.

(2) Standard

The Mortgagee must expedite the release of insurance proceeds for needed home repairs after ensuring sufficient funds are available and approving a Viable Repair Plan.

(D) Application of Insurance Proceeds to Unpaid Principal Balance

The Mortgagee must not apply insurance proceeds payable for home damages to arrearages and/or reduction of the unpaid principal balance unless:

- the amount of the proceeds exceeds the costs to repair the damages to the home; or
- the insurance proceeds are insufficient to repair the home damages based on a certified repair estimate, and the Borrower is unable to demonstrate that they have additional funds from other sources to complete the repairs.

If the Mortgagee receives repayment from insurance or condemnation proceeds after restoration or repair of the damaged Property, then the available Principal Limit and HECM balance must be reduced by the amount of such proceeds.

n. Mortgage Insurance Premium Remittance (04/29/2024)

i. Definition

Annual or Periodic MIPs refer to those MIPs that are remitted to HUD each month.

ii. Standard

The Mortgagee must remit one-twelfth of the annual MIP due to HUD each month by authorizing HERMIT to collect the full premium from the Mortgagee's bank account.

When payment is remitted, the Mortgagee must add the payment to the Borrower's outstanding balance.

If the HECM is transferred or sold to another Mortgagee, the transfer must be completed in HERMIT before the end of the month in order to ensure the MIP is remitted by the correct Mortgagee.

iii. Mortgage Insurance Premium Reports

(A) Use of HERMIT

The Mortgagee can access the Premiums Batch status in HERMIT to determine monthly collections of MIP after endorsement.

(B) Reports of a Transfer or Sale

The Mortgagee may confirm a transfer or sale of the HECM has been completed in HERMIT by reviewing the Status of Servicer Transfer Import File in HERMIT to ensure the MIP will be remitted by the correct Mortgagee.

o. Post-Endorsement HECM Amendments (04/29/2024)

i. Definition

A Post-Endorsement HECM Amendment refers to a change to the HECM instruments, the nature of the obligation, or the security after the HECM has been insured.

ii. Standard

The Mortgagee must obtain HUD's approval by submitting the required documents through the HERMIT System for all post-endorsement HECM amendments prior to completion of the proposed change.

iii. Required Documentation

The Mortgagee must retain a copy of all supporting documents submitted to HUD and HUD's approval or rejection of the amendment in the Servicing File.

iv. Types of Amendments

(A) Partial Release of Security

(1) Definition

Partial Release of Security refers to a request to release a portion of the land that secures the HECM. Reasons for a partial release of security may include:

- condemnation;
- eminent domain (order of taking);
- lot line dispute or adjustment; or
- sale of a portion of the land.

(2) Request Process

The Mortgagee must obtain HUD approval for any partial release of security. The Mortgagee must submit the following in HERMIT using the partial release of security request timeline:

- a cover letter that includes:
  - Borrower's name;
  - property address;
  - FHA case number of Borrower;
  - Maximum Claim Amount (MCA);
  - unpaid principal balance;
  - detailed reason for request, including how the land to be released will be used; and
  - Mortgagee's reason for the recommendation to accept the Borrower's request;
- whether or not the HECM is in good standing;
- the amount of the outstanding principal balance;
- a complete legal description of the Property to be released;
- a complete legal description of the Property to be retained;
- the sales contract, if any, indicating monetary consideration to be received by the Borrower;
- the amount of a prepayment, if any, to the HECM principal;
- any restrictions to be imposed on the land to be released;
- a survey or sketch of the Property showing:
  - the dimensions of the portion to be released and the portion to be retained;
  - the location of existing and proposed improvements; and
  - the relation of the Property to surrounding Properties;
- plans and specifications, including Cost Estimates of any alterations proposed for the remaining Property after the release;
- a valid FHA appraisal that reflects:
  - the value before the partial release of security; and
  - the value of the remaining Property after the partial release of security;
- any applicable notice of taking through eminent domain;
- copies of the first and any applicable second HECM;
- copies of the prepared partial releases for the first and any applicable second HECM; and
- any other supporting documentation the Mortgagee may deem appropriate.

(3) HUD Review

HUD will process the request for the partial release of security and notify the Mortgagee of the approval or rejection in HERMIT. If the request is approved,

HUD will execute the partial release of security document, upload a copy into HERMIT, and mail the original to the Mortgagee for recording.

(B) Substitution of Collateral

(1) Definition

A Substitution of Collateral refers to the substitution of security for the purpose of removing the dwelling to a new lot or replacing the dwelling with a similar or like kind on the existing lot under the following conditions:

- the Mortgagee obtains a good and valid first lien on the Property to which the dwelling is removed or the existing lot upon which the dwelling is rebuilt;
- all damages to the structure are repaired or all rebuilding of the structure is completed without cost to FHA; and
- the Property to which the dwelling is removed or rebuilt is in an area known to be reasonably free from natural hazards or, if in a flood zone, the Borrower will insure or reinsure under the National Flood Insurance Program (NFIP).

(2) Request Process

The Mortgagee, working with the Borrower and the insurance adjuster's report, must determine the extent of the damage. When it has been determined that substitution of a new dwelling is required, the Mortgagee must obtain HUD's approval prior to completion of construction. The Mortgagee must ensure the new dwelling:

- is comparable in value to the original dwelling;
- will support the original mortgage amounts; and
- will meet FHA's MPS.

The Mortgagee must submit a substitution of collateral request to HUD for review and approval via HERMIT with a cover letter that includes:

- Borrower's name;
- property address;
- FHA case number of Borrower;
- MCA;
- unpaid principal balance;
- detailed reason for request; and
- Mortgagee's reason for the recommendation to accept the Borrower's request.

The Mortgagee must also submit the following documentation, which may vary based on the nature and degree of the damage:

- the origination appraisal;

- an appraisal of the site with proposed improvements subject to completion per plans and specifications;
- verification the Borrower has sufficient construction funds to complete the project;
- the Hazard Insurance Claim Report and insurance payment information;
- a scheduled completion date for the entire project;
- an elevation survey, if required by local regulations; and
- evidence of compliance with any state or local building requirements.

The Mortgagee may, without the prior consent of the Commissioner, accept an addition to, or substitution of, the security for the purpose of removing the dwelling to a new lot under the following conditions:

- the dwelling has survived an earthquake or other disaster with little damage, but continued location on the Property might be hazardous;
- the Mortgagee obtains a good first lien on the Property to which the dwelling is removed or the existing lot upon which the dwelling is rebuilt;
- all damages to the structure are repaired or all rebuilding of the structure is completed without cost to FHA;
- the Property to which the dwelling is removed or rebuilt is in an area known to be reasonably free from natural hazards or, if in a flood zone, the Borrower will insure or reinsure under the NFIP; and
- immediately following the emergency removal, the Mortgagee notifies FHA through the HERMIT System of the reasons for removal.

The Mortgagee must monitor the progress of the project and ensure it is completed by the scheduled date.

(3) HUD Review

HUD will process the request for substitution of collateral and notify the Mortgagee of the approval or rejection by email. In addition, HUD will upload all related documentation received in HERMIT. HUD's appraisal review may have recommendations that must be met prior to the approval of the substitution of collateral. These recommendations, which will be stated in HUD's response to the request, may include:

- that the old structure is demolished and/or removed from the site; and
- a final inspection of the completed project be provided.

(C) Consent of Lienholder

(1) Definition

Consent of Lienholder refers to the approval of all lienholders to allow for an Easement on the Property that does not diminish the appraised value of the land secured by the HECM. If land is taken, the owner should be compensated and a partial release should be done. Easements may be for:

- aviation or avigation;
- oil and gas leases;
- driveways;
- subdivision consent;
- consent to change in covenants and restrictions; or
- municipalities to allow for drainage or access where no actual land is taken.

(2) Request Process

The Mortgagee must submit a request in HERMIT using the consent of lienholder timeline, providing the following documentation:

- a cover letter that includes:
  - Borrower's name;
  - property address;
  - FHA case number of Borrower;
  - MCA;
  - unpaid principal balance; and
  - detailed reason for request;
- a copy of the origination appraisal;
- a copy of the oil and gas lease contract, proposed easement, or other written agreement;
- copies of the recorded first and any applicable second HECM security instrument which includes the legal description;
- survey or plot plan showing proposed Easement, if applicable; and
- documents for which approval and signature is requested for first and any applicable second HECMs.

(3) HUD Review

HUD will process the request for the consent of lienholder and notify the Mortgagee of the approval or rejection in HERMIT. If the request is approved, HUD will execute the consent of lienholder document, upload a copy into HERMIT, and mail the original to the Mortgagee for recording.

(D) Subordination Agreement

(1) Definition

Subordination Agreement refers to an action necessary to correct the recordation order when the second HECM has been inadvertently recorded before the first. Recording a Subordination Agreement for the second HECM must result in the Mortgagee's HECM lien being a first mortgage lien.

(2) Request Process

The Mortgagee must submit a request for a Subordination Agreement in HERMIT using the Subordination timeline, providing the following documentation:

- copies of the recorded first and second HECM; and
- a prepared Subordination Agreement for HUD's execution.

(3) HUD Review

HUD will process the subordination request and notify the Mortgagee of the approval or rejection in HERMIT. If the request is approved, HUD will execute the Subordination Agreement, upload a copy into HERMIT, and mail the original to the Mortgagee for recording.

p. Occupancy Certification (11/30/2023)

i. Standard

(A) Annual Occupancy Certification

The Mortgagee must obtain an annual certification from the Borrower and any Eligible NBS that the HECM Property remains the Borrower's and any Eligible NBS's Principal Residence. The Mortgagee may obtain the certification either by hard copy, electronically, or verbally.

The certification must include the following warning above the signature line when obtained in writing:

> *I/We, the undersigned, certify under penalty of perjury that the information provided above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to five years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).*

When the certification is obtained verbally, the Mortgagee must first read the warning provided below before obtaining confirmation of the following from the Borrower and any Eligible NBS:

> *We are required to tell you that anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties under federal statutes, including the False Claims Act and Fraud Enforcement and Recovery Act. Such criminal and/or civil penalties include confinement for up to five years, fines, and civil and administrative penalties.*
>
> *Do you certify under penalty of perjury that the information you provided is true and accurate? If so, say 'yes'.*

If the Mortgagee receives the Borrower's or Eligible NBS's occupancy certification verbally, the Mortgagee's employee must sign and date the verification and note the name and the phone number of each Borrower or Eligible NBS with whom occupancy was verified. Mortgagees must retain an audio recording of the verification in the Mortgagee's servicing systems and provide the recording to FHA upon request.

Temporary Absences

The Mortgagee must advise the Borrower to notify the Mortgagee of absences from the Property in excess of two months to avoid determinations that the Borrower's Principal Residence has changed.

The Mortgagee must proceed in accordance with Due and Payable guidance in the event the Borrower fails to comply with the HECM provisions.

(B) Identifying Non-Borrowing Spouses

For HECMs with FHA case numbers assigned before August 4, 2014, Mortgagees must request information from Borrowers to attempt to identify NBSs. This request must be sent to Borrowers with the annual occupancy certification and include the following:

- Is the Borrower currently married?
- Is the Borrower's spouse a Borrower on the HECM loan?
- If the Borrower is currently married and the spouse is not a Borrower on the HECM loan, please provide the following:
  - NBS's name;
  - NBS's Social Security Number (SSN) or Taxpayer Identification Number (TIN);
  - NBS's date of birth; and
  - date of the couple's marriage.

(C) Eligible Non-Borrowing Spouse Annual Certification

Borrowers that identified themselves as being married with an Eligible NBS at origination must submit an additional certification on an annual basis certifying that the NBS continues to meet the Qualifying Attributes. This certification may be completed verbally consistent with the requirements for the Borrower's or Eligible NBS's Annual Occupancy Certification. Upon the death of the last surviving Borrower, the Mortgagee must comply with the requirements for a Deferral Period.

In the event of a divorce between a HECM Borrower and the NBS, Mortgagees are required to obtain a copy of the final divorce decree. Such NBS is no longer eligible for a Deferral Period and the Mortgagee is no longer required to have such Borrower or the former spouse satisfy the NBS certification requirements.

ii. Required Documentation

The Mortgagee must retain in the Servicing File copies of all:

- annual certifications; and
- documentation of Borrowers' absences from the Property.

q. Property Maintenance (04/29/2024)

i. Standard

Upon becoming aware of a deterioration in the Property's condition, the Mortgagee must notify the Borrower of the deficiency and provide the Borrower 60 Days to begin to correct the condition of the Property. The Mortgagee must continue to monitor the Property's condition until repairs are completed.

If the Borrower fails to begin to correct the condition of the Property within 60 Days or if the Borrower fails to make satisfactory progress toward repairing the Property, the Mortgagee must proceed in accordance with Due and Payable guidance.

ii. Required Documentation

The Mortgagee must retain in the Servicing File copies of all:

- notices of deterioration of property condition;
- notices to the Borrower to correct property condition deficiencies; and
- property inspections and photos conducted in addressing the deteriorated Property.

r. Optional Assignment (11/10/2026)

i. Definitions

Assignment refers to a Mortgagee's right to assign the HECM to HUD when the outstanding balance is equal to or greater than 98 percent of the MCA, or when the Borrower has requested a payment that will cause the outstanding balance to equal or exceed 100 percent of the MCA.

Mortgagee-Funded Cure refers to the use of the Mortgagee's corporate funds to repay or forgive the outstanding corporate advances for Property Charge payments made by the Mortgagee on the Borrower's behalf with no further repayment to the Mortgagee required.

Mortgagee Optional Election (MOE) Assignment refers to an assignment option available to Mortgagees for cases where an FHA case number was assigned prior to August 4, 2014, and is associated with an Eligible Surviving NBS.

ii. Standard

In preparing to assign the HECM, the Mortgagee must:

- provide a written notice to the Borrower of intent to assign the HECM to HUD;
- notify HUD of intent to assign by submitting an assignment request through HERMIT; and
- disburse to the Borrower any remaining funds withheld for Hazard Insurance.

Technical assistance for initiating and submitting a Claim Type 22 assignment request is available in the *HERMIT User Guide*.

If the HECM is assigned to the Secretary, or if payments are made through a second HECM under the demand assignment process, the Secretary is not required to assume responsibility for property charge payments, but will continue to administer payment of taxes for Borrowers from any funds available in an applicable Fully Funded LESA.

(A) Notice to the Borrower

The written notice must state:

- the anticipated date of assignment;
- instructions to the Borrower for making requests for unscheduled or line-of-credit payments to HUD after the assignment date;
- that, if applicable, taxes will continue to be paid from a Property Charge Set-Aside or available LESA funds after assignment;
- that after assignment the Borrower is responsible for payment of taxes where there is no Property Charge Set-Aside or available LESA funds; and
- that after assignment the Borrower is responsible for maintaining and paying for Hazard Insurance, regardless of any funds remaining in a Property Charge Set-Aside or Fully Funded LESA.

(B) Eligibility Criteria

Prior to assigning a HECM, the Mortgagee must:

- be current in its payment of the MIP, including Late Charges and interest on the MIP, as applicable;
- have a good right to assign;
- ensure any repairs related to a hazard and/or flood insurance loss have been completed and any insurance proceeds have been disbursed appropriately; and
- ensure the Mortgagee has not signed an indemnification agreement for the HECM with HUD.

The Mortgagee must also ensure the HECM:

- has no outstanding Property Charge-related corporate advances;
- is not subject to a Repayment Plan;
- is a valid, legally enforceable first lien;
- is secured by the Property with good and marketable title;

- has no offsets or counterclaims;
- is reflected in HERMIT with a case status of "Endorsed" and a sub-status of "Loan Active";
- is reflected in HERMIT with the correct Lender, Investor, and Loan Number; and
- if subject to a tax deferral program in which the Borrower participated, the program does not and will not:
  - adversely affect the lien priority of the HECM; or
  - result in a requirement that HUD pay the Borrower's deferred taxes upon the Borrower's death or any other maturity event.

(C) Additional Criteria

In addition to all basic eligibility criteria, the Mortgagee must ensure that additional eligibility criteria are met on a case-by-case basis.

(1) Cases Not Involving an Eligible Non-Borrowing Spouse

For cases not involving an Eligible NBS, the Mortgagee must be current in making the required payments under the HECM to the Borrower. Additionally, the Mortgagee must ensure:

- the Borrower's obligations under the HECM are current;
- HUD has not been informed of a Due and Payable event, or HUD has been so informed but has denied due and payable approval for the HECM; and
- the outstanding HECM balance is greater than or equal to 97 percent of the MCA unless HUD has approved a line-of-credit advance request that would cause the outstanding balance to exceed 100 percent of the MCA.

No assignment claim will be paid until the outstanding HECM balance is greater than or equal to 98 percent of the MCA.

(2) Cases Involving an Eligible Non-Borrowing Spouse and Assigned an FHA Case Number on or after August 4, 2014

For cases that involve an Eligible NBS with an FHA case number assigned on or after August 4, 2014, where the HECM is not within a Deferral Period, the Mortgagee must be current in making the required payments under the HECM to the Borrower. Additionally, the Mortgagee must ensure:

- the Borrower's obligations under the HECM are current;
- HUD has not been informed of a Due and Payable event, other than in the case of the death of the last surviving Borrower or non-occupancy of a Borrower because the Borrower has resided in a health care facility for more than 12 consecutive months, or HUD has been so informed but has denied due and payable approval for the HECM;
- all required certifications have been obtained; and

- the outstanding HECM balance is greater than or equal to 97 percent of the MCA.

No assignment claim will be paid until the outstanding HECM balance is greater than or equal to 98 percent of the MCA.

(3) Cases Involving an Eligible Non-Borrowing Spouse and Assigned an FHA Case Number Before August 4, 2014

For cases involving an Eligible Surviving NBS with an FHA case number assigned prior to August 4, 2014, if a Mortgagee does not elect to utilize the MOE Assignment upon the death of the last surviving Borrower or determines that a HECM is ineligible for MOE Assignment, the Mortgagee must notify HUD through HERMIT that the HECM has become Due and Payable. The Mortgagee must commence foreclosure within the established foreclosure time frames.

Where the HECM will be assigned to HUD using the MOE Assignment, the Mortgagee must ensure:

- the Secretary has not been informed of a Due and Payable event, other than in the case of the death of the last surviving Borrower or non-occupancy of a Borrower because the Borrower has resided in a health care facility for more than 12 consecutive months, or the Secretary has been so informed but has denied due and payable approval for the HECM;
- the HECM remains a valid and legally enforceable first lien under state law and no statute of limitations or other barrier exists to the exercising of rights to gain good, marketable title under the HECM, which may include a modification to the HECM, if needed; and
- there are no allegations or claims that would invalidate the HECM or any such allegations or claims have been judicially resolved in favor of the Mortgagee.

iii. Required Documentation

The Mortgagee must submit each of the following documentation packages in support of their Claim Type 22 assignment request:

- compliance package;
- collateral package; and
- servicing package.

For a HECM being assigned in accordance with MOE, the Mortgagee must also submit a MOE Assignment package.

The Mortgagee must submit the documentation packages using HERMIT under the appropriate Claim Type 22 “timeline step.” Technical assistance for initiating and submitting a Claim Type 22 assignment request is available in the *HERMIT User Guide*.

HUD will only review complete Claim Type 22 assignment requests. Incomplete requests, including those with missing documentation or those for which the documentation has not been stacked in the order identified below, will be denied. In such cases, the Mortgagee will receive a denial letter in HERMIT that advises the Mortgagee of the reason for denial and identifies the required documentation that was missing or filed improperly. The Mortgagee must re-file a complete Claim Type 22 assignment request if it chooses to proceed with its request.

(A) Compliance Package

The compliance package includes the items listed below which must be stacked in the following order:

1. Borrower's payment plan and method if the Borrower has available Principal Limit or receives scheduled payments. If the Borrower is paid via Automated Clearing House (ACH), this must include the ACH information and indicate if the ACH account is a checking account or savings account;
2. copy of the Notice of Assignment letter sent to the Borrower;
3. payment history from the Mortgagee's system through the current month and including the current NPL;
4. most recent LESA analysis and notice to the Borrower where LESA funds are anticipated to be exhausted or insufficient to make the required disbursements for the following year, if applicable;
5. current hazard insurance declaration page, or a document from the hazard insurance provider on its letterhead or from its website that contains the following information:
   a. name of the insured
   b. address of insured property
   c. type of coverage
   d. insurance policy number
   e. insurance policy limits
   f. effective date of the insurance policy
   g. expiration date of the insurance policy
   h. name and contact information for the insurer
   i. annual insurance premium;
6. current flood insurance declaration page, if applicable;
7. evidence that any repairs related to a hazard or flood insurance loss have been completed and the insurance proceeds disbursed appropriately, if applicable;
8. all certifications related to an NBS required specifically for HECMs originated on or after August 4, 2014, or those specifically required for HECMs originated prior to August 4, 2014 and being assigned under a MOE Assignment;
9. certification that the Mortgage is not subject to an indemnification agreement entered into by the Mortgagee assigning the HECM.

(B) Collateral Package

The collateral package must include the items listed below in the following order:

1. original Note;
2. recorded first Mortgage and addendums, if applicable;
3. Subordination Agreement, if applicable;
4. evidence that the mobile home title has been retired, if applicable;
5. all recorded intervening assignments;
6. proposed assignment to HUD, which does not need to be signed and notarized; and
7. title policy which must include the language "its successors and/or assigns" after the Mortgagee's name. Title commitments are not acceptable.

(C) Servicing Package

The servicing package must include the items listed below in the following order:

1. second Note, if applicable;
2. recorded second Mortgage and addendums, if applicable; and
3. complete loan agreement, including all exhibits.

(D) MOE Assignment Package

Where applicable, the MOE Assignment package must include the items listed below in the following order:

1. Borrower's death certificate, if applicable;
2. evidence of Borrower's residence in health care facility for more than 12 consecutive months, if applicable;
3. copy of Borrower and Eligible Surviving NBS's marriage certificate, legal opinion certifying the validity of the marriage, or other evidence sufficient to establish the legal validity of the marriage;
4. affirmation that no allegations which would invalidate the HECM exists or, if there were allegations, evidence of the judicial resolution documenting a finding in favor of the Mortgagee;
5. a signed Mortgagee certification that the HECM lien is a valid, legally enforceable first lien; and
6. a signed Eligible Surviving NBS certification as provided in the MOE Assignment section.

iv. Preliminary Review by HUD

HUD will review the Mortgagee's Claim Type 22 assignment request and if approved, the Mortgagee will receive notification of the decision in HERMIT with instructions on how to proceed.

v. Completing the Assignment Process

Within 90 calendar days from claim payment, the Mortgagee must send the items listed below to HUD's Loan Servicing Contractor and complete the Claim Type 22 Assignment Claim timeline steps in HERMIT:

- the endorsed, original first Note;
- the original first Mortgage/deed of trust;
- a check made payable to HUD for any funds remaining from a local, state, or other government property charge assistance program, if applicable; and
- a manifest identifying the FHA case number(s) and all documents enclosed in the shipping package.

After HUD's Loan Servicing Contractor acknowledges receipt of the above referenced documents in HERMIT, the Mortgagee must submit the assignment for recordation. Only after submitting the assignment for recordation may the Mortgagee complete its claim in HERMIT. Successfully filing the Claim Type 22 will complete the transfer of servicing to HUD.

The Mortgagee must forward the recorded assignment to HUD's Loan Servicing Contractor as soon as it is received by the Mortgagee, but in no case more than 12 months after recordation. After HUD's Loan Servicing Contractor acknowledges receipt of the recorded assignment in HERMIT, the Mortgagee will receive a final title approval letter confirming receipt in HERMIT.

If the original note or security instrument is not received within 90 Days of claim payment or the recorded assignment is not received within 12 months of claim payment, the Mortgagee will be responsible for repurchasing the HECM from HUD and may be referred to the appropriate office(s) for sanctioning.

vi. Servicing Responsibilities for a Pending Assignment

A HECM assignment is not complete until the Mortgagee:

- receives approval from HUD to assign the HECM;
- sends the assignment for recording; and
- successfully files the Claim Type 22 for insurance benefits, which completes the transfer of servicing to HUD.

Until a HECM assignment is complete, the Mortgagee must continue to service the HECM, make all scheduled payments, and make all unscheduled payments that will not result in the HECM balance exceeding 100 percent of the MCA.

When an unscheduled payment to a Borrower would cause the HECM balance to exceed 100 percent of the MCA, the Mortgagee may request that HUD make the unscheduled payment. Such requests must be submitted to HUD within three business days of the Mortgagee's receipt of the Borrower's request. The Mortgagee must pay any penalties

and interest due to the Borrower if the Mortgagee does not submit the request to HUD within three business days of receipt of the Borrower's request.

(A) HUD Advances

In cases where HUD advances funds to the Borrower on the Mortgagee's behalf, the Mortgagee must initiate a Claim Type 22 assignment request within 30 Days of the HUD advance.

(B) Failure to Initiate Assignment

If the Mortgagee fails to initiate such a request within the allotted time frame, a "Repayment" task will be generated in HERMIT and the Mortgagee must reimburse HUD for the amount of the advance plus any accruals added to the HECM balance through the date the Mortgagee authorizes repayment in HERMIT. Such reimbursement must be completed in HERMIT within 30 Days of the "Repayment" task being generated. The Mortgagee should refer to the *HERMIT User Guide* for technical instructions on completing such actions.

(C) Denied Assignment Requests

If the Mortgagee's Claim Type 22 assignment request is denied, the Mortgagee must reimburse HUD for the amount of the advance plus any accruals added to the HECM balance through the date the Mortgagee authorizes repayment in HERMIT. Such reimbursement must be completed in HERMIT within 30 Days of the date of the denial. Technical instructions on completing actions in HERMIT are found in the *HERMIT User Guide*.

(D) Failure to Reimburse HUD

Mortgagees who fail to reimburse HUD within the allotted time frames may be referred to HUD's Office of Program Enforcement and/or the Mortgagee Review Board (MRB).

s. Demand Assignment (04/29/2024)

i. Definition

Demand Assignment refers to an assignment option where the Mortgagee chooses to assign a HECM, or a portfolio of HECMs, because the Mortgagee is unable or unwilling to reimburse HUD for payments to the Borrower made by HUD.

ii. Standard

For cases involving a Mortgagee that fails to make payments to the Borrower, HUD may demand assignment. If the Borrower or Mortgagee notifies HUD that a payment was not received and HUD determines that the Mortgagee cannot or will not make the required

payment, HUD will make the payment and proceed with communicating to the Mortgagee that a demand assignment could occur.

After HUD makes the necessary payment, HUD may issue a written Demand Letter to the Mortgagee, requiring the Mortgagee to:

- resume making payments under the HECM; and
- reimburse HUD for the amount of the total payment, with interest from the date of the payment to the date reimbursement is received by HUD.

HUD will specify an amount, date of payment, and a per diem interest rate, set in conformance with the Treasury Financial Manual.

If the Mortgagee is unable or unwilling to reimburse HUD or resume making payments under the HECM, the Mortgagee may:

- submit an assignment request, in accordance with the Optional Assignment requirements, to HUD within 30 Days;
- limit the Borrower's liability to payments actually made to or on behalf of the Borrower and the MIP remitted on the HECM; and
- exclude any interest accrued on the HECM from the Borrower's liability.

If the Mortgagee fails to reimburse HUD or assign the HECM within 30 Days of the Demand Letter, the contract of HECM insurance will be terminated.

If the contract of insurance is terminated, all payments made by HUD will be secured by the second HECM lien.

iii. Required Documentation

The Mortgagee must follow the documentation instructions for Optional Assignments.

t. Repurchase of Previously Assigned HECM (11/10/2026)

i. Definition

Repurchase refers to HUD's requirement that the HECM be returned to the Mortgagee who assigned it due to the discovery of the Mortgagee's noncompliance with the regulations, which allowed a condition to exist that would have made the HECM unassignable.

ii. Standard

The Mortgagee must repurchase a HECM upon notification from HUD if any of the following conditions of noncompliance occurred at or prior to the time of assignment:

- a title defect discovered in relation to preparations for a foreclosure or Deed-In-Lieu (DIL) after assignment or after HUD acquired the Property through foreclosure; or
- an occurrence of a Due and Payable event of which HUD was not made aware.

(A) Initiating the Repurchase Process

HUD initiates a repurchase using the repurchase timeline in HERMIT. HUD will provide a repurchase notification to the Mortgagee.

(1) Curable Defects

HUD will provide the Mortgagee with a pre-repurchase letter, detailing the defect and allowing up to 30 Days to cure.

The Mortgagee must take the appropriate action to correct a defect if curable and provide HUD with supporting documentation of such correction. The Mortgagee may request a maximum of three 30-Day extensions. The Mortgagee must submit any request for extension in HERMIT.

HUD will cancel the repurchase timeline if the Mortgagee cures the defect within the 30-Day period or any extension period approved by HUD.

(2) Incurable Defects

The Mortgagee must proceed with the repurchase within 30 Days of receipt of HUD's repurchase notification where:

- a title defect exists that cannot be corrected; or
- the repurchase involves a HECM that was eligible to be Due and Payable when it was assigned.

If it is determined that a HECM for which a CT-22 Assignment Claim has been paid did not, at the time of the initial assignment application and continuously through claim payment, meet all assignment claim criteria, the Mortgagee must repurchase the HECM from the Secretary within 30 Days of notice from FHA of the defect.

(B) Completing the Repurchase Process

If the repurchase defect is incurable or the Mortgagee fails to cure the defect before the pre-repurchase period has expired, the Mortgagee must authorize HUD to draft the applicable funds from the Mortgagee's specified account. The Mortgagee must complete this action in HERMIT within 30 Days of the date HUD created the repurchase timeline or the expiration of the pre-repurchase period, if applicable.

The Mortgagee must prepare one of the following documents for HUD's execution:

- an assignment transferring the HECM from HUD to the Mortgagee; or
- a deed reconveying the Property for which HUD holds title to the Mortgagee.

Upon receipt of the executed document from HUD, the Mortgagee must have the document recorded and coordinate with HUD's HECM servicing contractor to transfer servicing back to the Mortgagee.

The Mortgagee must reimburse HUD for all expenses incurred in connection with the acquisition and reassignment or reconveyance. The reimbursement must include:

- interest on the amount of the insurance benefits refunded by the Mortgagee from the date the claim was paid to the date of the refund at an interest rate set in accordance with the Treasury Financial Manual; and
- HUD's cost of holding the Property and servicing the HECM, accruing on a daily basis, from the date of assignment to the date of reassignment.

iii. Required Documentation

The Mortgagee must send the Borrower and upload in HERMIT a notification that the HECM has been transferred back to the Mortgagee.

iv. Subsequent Application for Insurance Benefits

The Mortgagee may re-apply for insurance benefits at a subsequent date. The Mortgagee will not be reimbursed for any expenses incurred in connection with the Property after it has been reconveyed or the HECM reassigned, or paid any debenture interest accrued after the date of initial conveyance. Any reduction in HUD's estimate of the value of the Property occurring from the time of reconveyance to the time of reapplication will be deducted from the insurance benefits.

u. Mortgage Insurance Termination (04/29/2024)

i. Definition

A Mortgage Insurance Termination refers to the ending of FHA mortgage insurance, at which time all rights of the Mortgagee shall terminate, including the right to file a claim for insurance benefits, and all obligations of HUD cease immediately.

ii. Standard

(A) Termination of Mortgage Insurance

The Mortgagee may terminate the FHA insurance contract when the HERMIT case status is Endorsed and one of the following events has occurred:

- Prepayment in Full, including sale of the Property by the Borrower or other authorized party, or a HECM-to-HECM Refinance;
- acquisition of title through DIL by the Mortgagee or other party at a foreclosure sale, and no insurance claim will be submitted to HUD; or
- acquisition of title by the Mortgagee through a DIL or foreclosure, or the Property is sold by the Borrower or other authorized party for less than the full Payoff, and a claim for insurance will not be submitted.

The Mortgagee must report termination of a HECM to HUD by initiating a Termination transaction via HERMIT within 15 Days of a Payoff. Where the termination will result in submission of a claim, the claim serves as notice of

termination. Claims must be submitted based on the date the FHA case number was assigned, as follows:

- before September 19, 2017, within 15 Days of the Property being sold; or
- on or after September 19, 2017, within 30 Days of the Property being sold.

(B) Voluntary Termination of Mortgage Insurance

(1) Definition

A Voluntary Termination of Mortgage Insurance refers to a mutual agreement between the Borrower and the Mortgagee to terminate FHA mortgage insurance.

(2) Standard

The Borrower and the Mortgagee may agree to voluntarily terminate FHA mortgage insurance at any time.

(a) Borrower's Consent to Voluntary Termination

The Mortgagee must obtain a signed Borrower's Consent to Voluntary Termination of FHA Mortgage Insurance from each Borrower. The form must be on the Mortgagee's letterhead and must follow the format found in the model document.

(b) Reporting a Voluntary Termination

To report a voluntary termination, the Mortgagee must initiate a Termination transaction via HERMIT within 15 Days of receiving the executed Borrower's consent form.

(C) Effective Date of Termination

(1) Standard

The effective date of termination of the contract of insurance is the date on which one of the following occurs:

- the Mortgagee has received notice from HUD that it approves the voluntary Termination transaction;
- the Mortgagee has notified HUD that the HECM was prepaid;
- the Property was acquired by another party and the Mortgagee notifies the Commissioner that a claim will not be filed; or
- the Mortgagee fails to make the payments to the Borrower.

Where the Mortgagee acquires the Property through a foreclosure sale or DIL, the effective date of termination of the contract of insurance is the date on which a claim for insurance benefits is settled.

(2) Required Documentation

The Mortgagee must note in the Servicing File and initiate the termination transaction in HERMIT on the date on which the:

- voluntary termination request is received;
- HECM was prepaid; or
- Property was acquired by another party at a foreclosure sale and the Mortgagee determines that a claim will not be filed.

If the Mortgagee wishes to submit a claim for insurance benefits, such claim must be submitted via HERMIT after selling a Property acquired through foreclosure sale or DIL. See the Due and Payable Servicing section for further information.

(D) Termination of MIP Payments

The Mortgagee must pay MIP due through the effective date of termination for HECMs paid in full or where the Mortgagee or other party acquires the Property through sale, DIL, or foreclosure sale and no claim for insurance benefits will be submitted.

Where the termination will result in submission of a claim, the Mortgagee must pay the MIP due based on the date the FHA case number was assigned, as follows:

- before September 19, 2017, until the claim for insurance benefits is paid; or
- on or after September 19, 2017, until the date of the foreclosure sale, the date the DIL is recorded, or the date a sale by the Borrower or authorized party is completed.

v. Record Retention – Servicing File (04/29/2024)

i. Definition

The Servicing File refers to the Mortgagee's record of all servicing activity on an FHA-insured HECM.

ii. Standard

The Mortgagee must retain all Servicing Files for a minimum of three years after the transfer or sale of the HECM or termination of mortgage insurance. The Mortgagee must maintain accurate records for each HECM serviced. In addition to the specific documentation requirements stated in this Handbook 4000.1, these records must include the following information:

- HECM origination and endorsement documentation, including copies of the following documents, if applicable:
  - Conditional Commitment Direct Endorsement Statement of Appraised Value;
  - form HUD-92900.4, *Firm Commitment*, if applicable;
  - HECM loan agreement and exhibits;

- Fannie Mae Form 1009, *Residential Loan Application for Reverse Mortgages (RLARM)*, and Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application (URLA)*;
- Financial Assessment Worksheet; and
- Mortgage Insurance Certificate (MIC);

- MIP payments made;
- documentation related to any recovery of hazard insurance proceeds; and
- the FHA-insured HECMs in the Mortgagee's portfolio and information on which HECMs have been acquired, sold, paid in full, and voluntarily terminated.

The Mortgagee must also retain, in electronic and hard copy, the Mortgage, mortgage Note, deed of trust, or a lost note affidavit acceptable under state law, with the electronic copy marked "copy."

Where a claim is filed, the Mortgagee must retain documentation in compliance with the Claim File section for at least seven years after the final claim or latest supplemental claim settlement date.

iii. Record Reconciliations

HUD may require the Mortgagee to provide information evidencing reconciliation of Mortgagee records with HUD. This information may include identification, by HECM, of the following:

- amount of MIP due and paid to HUD by time period for each insured HECM;
- date insurance was terminated or servicing transferred, if applicable; and
- date servicing was acquired, for HECMs acquired.

The Mortgagee must ensure that HUD's records accurately reflect the status of the HECM and both the correct Holder and Servicer of record.

iv. Electronic Storage

Where retention of a hard copy or original document is not required, the Mortgagee may use electronic storage methods for all servicing-related documents required in accordance with HUD regulations, handbooks, Mortgagee Letters, and notices.

Regardless, the Mortgagee must be able to make available to HUD in the format (electronic or hard copy) requested legible documents within 24 hours of a request or as otherwise prescribed by HUD.

2. Default Servicing

a. Use of Counseling Agencies (04/29/2024)

The Mortgagee must refer the Borrower to a HUD-approved housing counseling agency in the area where the Property is located when obligations under the HECM are not being met

by the Borrower. The Mortgagee should refer the Borrower to a counseling agency before submitting a due and payable request.

b. Due and Payable Servicing (03/25/2024)

i. Standard

(A) Due and Payable with HUD's Approval

A HECM is eligible for Due and Payable status with HUD's approval if one of the following conditions applies:

- no surviving Borrower maintains the Property as their Principal Residence;
- a Borrower fails to occupy the Property for a period of more than 12 consecutive months because of physical or mental illness and the Property is not the Principal Residence of at least one other Borrower; or
- an obligation of the Borrower under the HECM is not fulfilled.

In such cases, the Mortgagee must submit a Due and Payable request to HUD through HERMIT within 30 Days of a HECM becoming eligible for Due and Payable status.

Required Documentation

Mortgagees must upload into HERMIT sufficient documentation to support the stated reason for request for HUD approval to call the loan Due and Payable. This documentation must be specific to the stated due and payable reason and must be an original source of information, such as documentation from a taxing authority that property taxes are delinquent or a policy termination letter from an insurance carrier.

(B) Automatic Due and Payable Events

A HECM becomes automatically Due and Payable, if one of the following conditions applies:

- for case numbers assigned before August 4, 2014:
  - a Borrower died and the Property is no longer the Principal Residence of at least one surviving Borrower;
  - a Borrower conveyed all of their title in the mortgaged Property and no other Borrower retains title to the Property; or
  - where the Mortgagee elects to pursue a MOE Assignment, the Mortgagee determines the NBS or HECM is ineligible for such assignment, thus ending the Deferral Period; or
- for case numbers assigned on or after August 4, 2014:
  - a Borrower died, the Property is no longer the Principal Residence of at least one surviving Borrower, and there is no applicable Deferral Period;
  - a Borrower conveys all of their title in the mortgaged Property and no other Borrower retains title to the Property; or
  - the Deferral Period for an Eligible NBS ends.

ii. Deferral Periods for an Eligible Non-Borrowing Spouse

In the event the last surviving Borrower predeceases an NBS, a Deferral Period may be provided for the Due and Payable status where the NBS meets all the Qualifying Attributes and all other HUD requirements herein.

(A) Deferral Period Requirements

(1) Case Numbers Assigned before August 4, 2014

Where the Mortgagee elects to pursue a MOE Assignment, the HECM will enter a Deferral Period while the Mortgagee completes the required MOE Assessment. If the Mortgagee determines the HECM and the NBS meet all of the requirements for a MOE Assignment, the HECM may be assigned to HUD and HUD will administer the Deferral Period. If the Mortgagee determines the HECM or the NBS do not meet all of the requirements for a MOE Assignment, the Deferral Period ends and the Mortgagee must proceed with calling the HECM Due and Payable without HUD's approval.

(2) Case Numbers Assigned on or after August 4, 2014

Where an Eligible NBS was identified at origination, and remained an Eligible NBS throughout the Borrower's lifetime, the HECM will automatically enter a Deferral Period when the Mortgagee enters the date of the last surviving HECM Borrower's death in HERMIT.

To continue this Deferral Period, the Mortgagee must ensure the NBS satisfies, and continues to satisfy, the following Qualifying Attributes:

- ensure all other obligations of the Borrower continue to be satisfied; and
- ensure that the HECM does not become eligible to be called Due and Payable for any reason other than:
  - the death of the last surviving Borrower; or
  - the Borrower's residence in a health care facility for longer than 12 consecutive months.

If at any time, the NBS fails to meet any of the Qualifying Attributes or any of the requirements for deferral cease to be met, the Deferral Period ends and the Mortgagee must proceed with calling the HECM Due and Payable without HUD's approval.

(B) Required Documentation

During a Deferral Period, the Mortgagee must upload copies of the following documents into HERMIT:

- all applicable Due and Payable notifications; and
- all required annual NBS certifications.

(C) Required Due and Payable Notification to HUD

The Mortgagee must notify HUD within 30 Days of determining a HECM is ineligible for a MOE Assignment.

For all other cases, the Mortgagee must notify HUD within 60 Days of a HECM becoming Due and Payable without HUD's approval.

The Mortgagee must provide notice by:

- entering the Borrower's date of death in HERMIT for cases where the HECM is Due and Payable due to the Borrower's death;
- initiating a Due and Payable without a HUD Approval timeline in HERMIT for cases where the HECM is Due and Payable due to conveyance; or
- completing the Due and Payable timeline in HERMIT for cases where the HECM is Due and Payable due to a Deferral Period ending.

The Mortgagee must take whatever steps are necessary to ensure they are able to provide the required notice. Where state privacy laws impair the Mortgagee's ability to acquire relevant information about the death of a Borrower or an Eligible NBS, the Mortgagee must:

- notify HUD, through HERMIT, of the Due and Payable status within 30 Days of the end of the state's privacy law restriction on the Mortgagee's access to the information; and
- provide the relevant state law and a detailed explanation supporting the delay.

Notification During Deferral Periods

In the event of a Deferral Period, the Mortgagee must not complete the Due and Payable timeline until the Deferral Period ends.

The Mortgagee must complete the appropriate Due and Payable timeline within 60 Days from the end of the Deferral Period, which provides HUD the required notification and changes the HECM status in HERMIT to Due and Payable.

(D) Verbal Notification of Death to Mortgagee

When a HECM is Due and Payable as a result of a Borrower's death or a Deferral Period ends as a result of an Eligible NBS's death, the Mortgagee may accept verbal notification of the death from the heirs or estate for Due and Payable purposes.

iii. Required Notifications

(A) Standard

(1) Due and Payable Notice to Borrower for Reasons Other than Death

The Mortgagee must provide notice to the Borrower within 30 Days of receiving HUD's approval to call a HECM Due and Payable. The notice must:

- state that an obligation of the Borrower has not been met;
- state specifically what obligation of the Borrower has not been met;
- state that failure of the Borrower to comply with the terms of the HECM has resulted in the HECM becoming Due and Payable;
- provide notice of the availability of housing counseling;
- provide notice of any available Loss Mitigation Options the Mortgagee may offer; and
- provide the Borrower 30 Days to notify the Mortgagee of their intention to either:
  - satisfy the HECM in full;
  - sell the Property for at least 95 percent of the current appraised value;
  - provide the Mortgagee with a DIL of Foreclosure; or
  - correct the matter which resulted in the HECM becoming Due and Payable.

(2) Due and Payable Notice to Borrower's Estate or Heirs due to Death or End of Deferral Period

The Mortgagee must provide notice to the Borrower's estate, heir, or other party with legal title to the Property securing the HECM within 30 Days notifying the Commissioner that the Mortgage is Due and Payable. The notice must provide the following options for the Borrower's estate, heir, or other party with legal title to the Property to resolve the HECM:

- pay the outstanding loan balance including any accrued interest, MIP, and mortgagee advances in full;
- provide information to the Mortgagee regarding a spouse of the Borrower who was not also a borrower on the HECM to determine if the spouse may be eligible for a Deferral Period;
- sell the Property for at least the lesser of the outstanding principal balance or 95 percent of the current appraised value;
- provide the Mortgagee with a DIL of Foreclosure;
- correct the condition which resulted in the Mortgage becoming Due and Payable for reasons other than the death of the last surviving Borrower; or
- for an Eligible NBS, correct the condition which resulted in an end to the Deferral Period.

(3) Notice to Non-Borrowing Spouse at the Start of a Deferral Period

Within 30 Days of receiving notice of the last surviving Borrower's death, the Mortgagee must provide to an Eligible NBS a notice including information on:

- the eligibility requirements for a Deferral Period;
- the conditions and requirements for the continuation of a Deferral Period;
- the ability to cure the default (due to failure to maintain the Property or failure to pay Property Charges) in order to be in compliance with the requirements for the continuation of a Deferral Period; and
- the ability to reinstate the Deferral Period, which may be limited under certain circumstances.

(4) Due and Payable Notice to Non-Borrowing Spouse at the End of a Deferral Period – Non-Borrowing Spouse Ineligibility

When a Deferral Period ends because an Eligible NBS has become an Ineligible NBS, the Mortgagee must notify the NBS within 30 Days after the end of the Deferral Period that:

- the Deferral Period has ended;
- the HECM is Due and Payable; and
- the Borrower's estate, heir, or other party with authority to dispose of the Property may either:
  - satisfy the HECM for the lesser of the full debt or 95 percent of the current appraised value;
  - sell the Property for at least the lesser of the outstanding principal balance or 95 percent of the current appraised value; or
  - provide the Mortgagee with a DIL of Foreclosure.

(5) Due and Payable Notice to Non-Borrowing Spouse at the End of a Deferral Period – HECM Ineligibility

When a HECM is in a Deferral Period, if any other applicable requirements for deferral cease to be met, the Mortgagee must notify the Eligible NBS within 30 Days that:

- a requirement of the Deferral Period has not been met;
- the Eligible NBS has 30 Days to cure the condition of noncompliance; and
- failure to cure within such time will result in the Deferral Period ending and the HECM becoming Due and Payable with an explanation of Due and Payable status.

(B) Required Documentation

The Mortgagee must retain copies of all required notifications in the Servicing File.

iv. Selling the Property Secured by a HECM

Under the terms of the HECM, the Borrower may sell the Property secured by a HECM at any time for the lesser of the full HECM debt or the current appraised value. If the HECM is Due and Payable, the Property may be sold for the lesser of the full HECM debt, including any and all expenses incurred in connection with the HECM, or 95 percent of the current appraised value. Upon receipt of a request from the Borrower or other party with the legal right to dispose of the Property, the Mortgagee must have the Property appraised in accordance with the Required Appraisals section. The Mortgagee must provide the requestor a copy of the appraisal and retain copies in their Servicing File. For the purposes of this section, sell includes any post-death transfer of title by operation of law.

Where the Property is sold for less than full Payoff, the Mortgagee may file a Short Sale Claims (Claim Type 23) following the instructions in this section.

v. Required Inspections

(A) Standard

When a HECM is in Due and Payable status, the Mortgagee must perform a monthly visual inspection of the Property securing the HECM to determine whether the Property is vacant.

The Mortgagee must take reasonable action to protect and preserve the Property securing the HECM when it is determined or should have been determined that the Property is vacant or abandoned, if such action does not constitute illegal trespass. "Reasonable action" includes the commencement of foreclosure within the time required in this section.

(B) Required Documentation

The Mortgagee must retain copies of all inspection reports from the initial inspection through the sale of the Property in their Servicing File.

vi. Required Appraisals

(A) Standard

(1) Appraisal Requested

The Mortgagee must have the Property appraised by an FHA Roster Appraiser no later than 30 Days after the Borrower, Borrower's estate, heir, or other party with authority to dispose of the Property requests an appraisal in connection with a pending sale of the Property.

- If the HECM is not Due and Payable, the appraisal is at the Borrower's expense.
- If the HECM is Due and Payable, the appraisal is at the Mortgagee's expense, but the Mortgagee may be reimbursed from the proceeds of any sale or through the claim process.

(2) Appraisal for Foreclosure Sale

The Mortgagee must have the Property appraised before a foreclosure sale. The appraisal must have an effective date that is no more than 30 Days before the sale. If a foreclosure sale is rescheduled, the Mortgagee may continue to use the appraisal obtained for the initial foreclosure sale date provided it remains valid and unexpired as of the date of the foreclosure sale.

(3) Appraisal for Appraisal-Based Claim

If the Mortgagee is submitting an appraisal-based claim, the Mortgagee must use a valid, unexpired appraisal as of the date of claim submission.

(B) Required Documentation

The Mortgagee must retain copies of all appraisals received in the Servicing File.

c. Defaults for Unpaid Property Charges (11/30/2023)

i. Definition

HECM Loss Mitigation refers to strategies intended to minimize economic impact to the Mutual Mortgage Insurance Fund (MMIF) and to avoid foreclosure, if possible.

Repayment Plan refers to a written agreement by the Borrower to make monthly payments to the Mortgagee to reimburse the Mortgagee for corporate advances made on the Borrower's behalf for taxes and/or insurance.

ii. Standard

(A) HECMs in Default due to Unpaid Property Charges

The Mortgagee may make property charge payments on behalf of the Borrower using funds available under the NPL.

(1) When Insufficient Funds Remain

If insufficient funds remain to satisfy these unpaid Property Charges, the Mortgagee must promptly notify the Borrower that failure to make the payment within 30 Days of the payment due date will result in the HECM becoming Due and Payable.

If the Borrower does not make the required payment and provide the Mortgagee documentation of such, the Mortgagee must:

- advance its corporate funds to pay the outstanding Property Charges;
- take whatever steps necessary to protect its and HUD's security interests; and
- submit a Due and Payable request.

(2) When There is a Deferral Period

During a Deferral Period, the Mortgagee must not make property charge payments using HECM proceeds as no further Disbursements are available under the HECM.

If a property charge payment is missed during a Deferral Period, the Mortgagee must notify any Eligible NBS that an obligation of the HECM was not satisfied and that the Deferral Period has ended unless the default is cured within 30 Days.

If the default is not cured within such time, the Mortgagee must proceed in accordance with applicable time frames to initiate foreclosure and reasonable diligence in prosecuting foreclosure.

If a default is cured at any time prior to a foreclosure sale, the Mortgagee must reinstate the Deferral Period provided the Deferral Period reinstatement provisions for an Eligible NBS are met.

(3) HECMs with Set-Aside Accounts

For HECMs with Set-Aside accounts for paying Property Charges, the HECM will be considered in default and eligible for Due and Payable status if:

- the Set-Aside account has been exhausted of available funds to make property charge payments;
- the Borrower fails to remit the property charge payment in full within 30 Days as required, after being notified by the Mortgagee of their outstanding property charge obligation; and
- the Principal Limit has been exhausted, requiring the Mortgagee to make the property charge payment using corporate funds.

(B) Notification to the Borrower of a Missed Property Charge Payment

The Mortgagee must provide the Borrower a Property Charge Delinquency letter within 30 Days of the Mortgagee receiving notification that a property charge payment is outstanding when the Borrower has failed to make the required payment and provide the Mortgagee documentation of such payment. The Mortgagee may vary the actual structure of the letter, but must include the following:

- state that an obligation of the Borrower to pay Property Charges has not been met;

- state that the Borrower's failure to pay Property Charges within 30 Days of the notice will result in the HECM becoming Due and Payable;
- where applicable, include the amount of corporate funds advanced by the Mortgagee on the Borrower's behalf to satisfy the unpaid Property Charge and state that the Borrower's failure to reimburse the Mortgagee within 30 Days of the notice will result in the HECM becoming Due and Payable;
- provide notice of availability of housing counseling; and
- provide information regarding Loss Mitigation Options that may be available to a Borrower in default, including:
  - refinancing the defaulted HECM into a new HECM if possible under all applicable origination requirements;
  - state, local, or other government assistance programs available for Borrowers; and
  - disposition options including sale of Property or DIL.

(C) Requesting Due and Payable

If a property charge default has not been cured within 30 Days of notifying the Borrower of unpaid Property Charges, the Mortgagee must submit to HUD a Due and Payable request, in accordance with the Due and Payable policies.

Where the Mortgagee is willing to offer the Borrower an available Loss Mitigation Option, the Mortgagee may request a property charge loss mitigation extension to the foreclosure time frame in HERMIT following the guidance in the Mortgagee Extension for Property Charge Loss Mitigation section.

(D) Permissible Loss Mitigation Options Available for HECMs in Due and Payable Status

If the Loss Mitigation Options identified in the Property Charge Delinquency letter are unavailable, have been declined by the Borrower, or have been otherwise exhausted, the Mortgagee may review the Borrower for the following:

- Option 1: Repayment Plan to satisfy outstanding corporate advances made for property charge defaults; or
- Option 2: an extension of the foreclosure time frames due to an At-Risk HECM Borrower.

The Mortgagee will not be reimbursed for any amount greater than the MCA, even if the HECM balance exceeds 100 percent of the MCA due to the Mortgagee providing a Repayment Plan. In addition, a HECM with an active Repayment Plan is not eligible for assignment to HUD.

(1) Option 1: HECM Loss Mitigation Repayment Plan

The Mortgagee must determine the Borrower's ability to support, and likelihood of success under, a Repayment Plan before offering this Loss Mitigation Option.

If the Borrower will not be able to repay the corporate advance within the permissible time, this Loss Mitigation Option is not available. Additionally, any permissible Repayment Plan must provide that in the event the last surviving Borrower dies before the Repayment Plan is paid in full, any outstanding amounts owed become immediately due and must be satisfied within 30 Days.

The Mortgagee must follow the steps below when evaluating a Borrower for a Repayment Plan.

(a) Assessing the Borrower for a Repayment Plan

When assessing a Borrower for a Repayment Plan, the Mortgagee must evaluate the Borrower's ability to repay the Mortgagee's corporate advances through a Repayment Plan by using the financial information provided by the Borrower and the calculation instructions below.

The Mortgagee must determine the shortest time period necessary, not to exceed five years, for the Repayment Plan to ensure repayment at the earliest possible date.

(b) Repayment Plan Calculation

(i) **Calculate Total Arrearage**

The total arrearage is determined by adding the outstanding corporate advances for taxes and/or insurance made for the account to any Property Charges due for the next 90 Days. HOA and Condominium Association dues may be included in the total arrearage at the Mortgagee's discretion.

(ii) **Calculate Monthly Surplus Income**

The Borrower's monthly surplus income is the total amount of income as stated by the Borrower, less:

- the Borrower's necessary living expenses; and
- one-twelfth of the Property Charges due over the next 12 months.

(iii) **Calculate Repayment Plan Terms**

The Mortgagee must determine if the Repayment Plan can be achieved using 25 percent of the Borrower's monthly surplus income. If the total arrearage amount divided by 25 percent of the Borrower's monthly surplus income, rounded up to the nearest whole month, is:

- 60 months or less, the result is the required length of the Repayment Plan; or
- more than 60 months, the Mortgagee must determine the percentage of the Borrower's monthly surplus income needed to repay in 60 months:

- if the resulting percentage would represent a reasonable expectation of the Borrower's performance, the required length of the Repayment Plan is 60 months; or
- if the resulting percentage would represent an unreasonable expectation of the Borrower's performance, the Borrower's surplus income is insufficient to support a Repayment Plan and this option is no longer available.

(iv) Insufficient Surplus Income for a Repayment Plan

Where the Mortgagee determines that the Borrower's surplus income is insufficient to support a reasonable Repayment Plan, the Mortgagee may assess the Borrower for an At-Risk extension.

(c) Additional Unpaid Property Charges or Hardship Experienced after Establishing a Repayment Plan

(i) Additional Unpaid Property Charges

In cases where there is an active Repayment Plan, the Mortgagee may re-evaluate the Borrower for a new Repayment Plan if the Borrower again fails to pay the required Property Charges. The Mortgagee must solicit new financial information from the Borrower to conduct this assessment.

To revise the Repayment Plan the Mortgagee must use a recalculated total arrearage, including all outstanding corporate advances made.

The Mortgagee must determine the maximum permitted length of a new Repayment Plan by subtracting the number of months of previous Repayment Plan participation from 60 months, which is the maximum available time frame. The Mortgagee must then determine if the new Repayment Plan can be achieved using 25 percent of the Borrower's monthly surplus income. If the revised total amount divided by 25 percent of the Borrower's monthly surplus income, rounded up to the nearest whole month, is:

- no more than the maximum permitted length as calculated above, the result is the required length of the new Repayment Plan; or
- more than the maximum permitted length, the Mortgagee must determine the percentage of the Borrower's monthly surplus income needed to repay within the permitted time period:
  - if the resulting percentage would represent a reasonable expectation of the Borrower's performance, the required length of the new Repayment Plan is the maximum permitted time; or
  - if the resulting percentage would represent an unreasonable expectation of the Borrower's performance, the Borrower's

surplus income is insufficient to support a new Repayment Plan and this option is no longer available.

The required minimum monthly payment for a new Repayment Plan equals the revised total arrearage divided by the length of the new Repayment Plan.

(ii) Experienced Hardships

If the Borrower experiences a decrease in their surplus income due to a verified hardship (e.g., illness, death of a household member who was identified as a contributor of income in a previous Repayment Plan calculation, emergency home repair, loss of employment income, etc.) and requests a Repayment Plan adjustment, the Mortgagee must solicit new financial information from the Borrower to conduct a new Repayment Plan assessment.

To revise the Repayment Plan the Mortgagee must use a recalculated Borrower's surplus income amount.

The Mortgagee must determine the maximum permitted length of a new Repayment Plan by subtracting the number of months of previous Repayment Plan participation from 60 months, which is the maximum available time frame. The Mortgagee must then determine if the new Repayment Plan can be achieved using 25 percent of the Borrower's new monthly surplus income. If the total amount divided by 25 percent of the Borrower's new monthly surplus income, rounded up to the nearest whole month, is:

- no more than the maximum permitted length as calculated above, the result is the required length of the new Repayment Plan; or
- more than the maximum permitted length, the Mortgagee must determine the percentage of the Borrower's new monthly surplus income needed to repay within the permitted time:
  - if the resulting percentage would represent a reasonable expectation of the Borrower's performance, the required length of the new Repayment Plan is the maximum permitted time; or
  - if the resulting percentage would represent an unreasonable expectation of the Borrower's performance, the Borrower's surplus income is insufficient to support a new Repayment Plan and this option is no longer available.

The required minimum monthly payment for a new Repayment Plan equals the total arrearage divided by the length of the new Repayment Plan.

(iii) Insufficient Surplus Income for a New Repayment Plan

Where the Mortgagee determines that the Borrower's surplus income is insufficient to support a reasonable new Repayment Plan, the Mortgagee may assess the Borrower for an At-Risk extension.

(d) Unsuccessful Repayment Plan Performance

A Borrower's Repayment Plan performance is unsuccessful when a full monthly payment is not made within 60 Days of the monthly payment due date.

Where a Borrower fails to perform successfully under an existing Repayment Plan, the Mortgagee may consider one of the following options:

- if the Mortgagee determines that a recalculated Repayment Plan results in reasonable payments, provide the Borrower with such; or
- if the Mortgagee determines that a recalculated Repayment Plan results in unreasonable payments, assess the Borrower for an At-Risk extension.

If a Repayment Plan is unsuccessful and either the Mortgagee chooses not to offer one of the above options or, after considering the options, determines neither is available, any extension to the foreclosure time frames cease immediately and the Mortgagee must proceed in accordance with HUD's regulations. However, the Mortgagee may receive an automatic 90-Day extension after a failed Repayment Plan to resume or restart foreclosure.

(e) Repayment Plans Satisfied Immediately Upon Death

Any approved property charge loss mitigation extension immediately ceases when the last surviving Borrower dies. Any outstanding corporate advances owed become immediately due. If any amount owed is not satisfied within 30 Days, the Mortgagee must proceed with calling the HECM Due and Payable.

If any outstanding amounts due are satisfied, the Mortgagee must request that the Due and Payable status on the HECM related to the repayment of any approved Property Charges be rescinded.

(2) Option 2: Allowable Foreclosure Extensions for At-Risk HECM Borrowers

(a) Definition

An At-Risk HECM Borrower refers to a Borrower who is in default for unpaid Property Charges, has insufficient surplus income to support a Repayment Plan, or was unsuccessful in their Repayment Plan and meets the following criteria:

- the youngest living Borrower is at least 80 years of age; and
- the Mortgagee has determined that the Borrower or Family Member receiving care in the residence has critical circumstances such as a supported terminal illness or substantiated long-term physical disability.

(b) Standard

To request a property charge loss mitigation extension for an At-Risk HECM Borrower, the Mortgagee must use the appropriate timeline in HERMIT and identify their request as At-Risk.

Upon request of the Mortgagee, HUD will determine whether an extension will be granted and reserves the right to require the Mortgagee to timely proceed to foreclosure.

If the last surviving Borrower dies or one of the required criteria cease to be met, any approved extension ceases immediately and the Mortgagee must proceed in accordance with HUD's regulations.

(c) Required Documentation

The Mortgagee must include supporting documentation with the extension request validating that the Borrower meets the definition of an At-Risk Borrower.

(E) Optional Delay to Submit a Due and Payable Request for Low Balance Arrearages

The Mortgagee may delay submitting a due and payable request to HUD for HECMs with a total Property Charge arrearage amount that is $5,000 or less by uploading documentation into HERMIT establishing that either:

- the Mortgagee is unable to contact the Borrower, and:
  - the Mortgagee has received the Borrower's current annual Occupancy Certification; and
  - the Mortgagee has no indication that the Borrower has vacated the Property; or
- the Mortgagee has contacted the Borrower, and:
  - the Borrower has expressed a willingness to repay; and
  - the Borrower is currently making payments or partial payments.

The Mortgagee must submit a due and payable request to HUD immediately upon the occurrence of any of the following events, whichever occurs first:

- the Borrower fails to timely complete the annual Occupancy Certification;
- the Borrower no longer occupies the Property securing the HECM as their Principal Residence;

- 12 months have elapsed from the first missed property tax and/or Hazard Insurance payment, and the Mortgagee is still unable to contact the Borrower;
- the Borrower has expressed an unwillingness to repay; or
- the total arrearage exceeds $5,000.

(F) Rescission of Due and Payable for a Mortgagee-Funded Cure

A Mortgagee may request HUD rescind a previous due and payable approval where the Mortgagee has completed a Mortgagee-Funded Cure and there are no other outstanding reasons for default.

(G) Curing the Default Following a Due and Payable Request

At any time prior to a foreclosure, the HECM default may be cured if the Borrower or Eligible NBS:

- becomes current on all Property Charges;
- repays all applicable corporate advances made by the Mortgagee; and
- fully cures any outstanding reasons for default.

Where the last surviving Borrower has died and there is an Eligible NBS, the Deferral Period Requirements will apply after the property charge default is cured.

HECMs with Repayment Plans or an At-Risk extension are not eligible for assignment until the default is cured, at which time the Mortgagee may assign the HECM in accordance with guidance for submitting assignment requests.

(H) Assignment Following a Mortgagee-Funded Cure

A Mortgagee may choose to assign a HECM that meets all other eligibility criteria for assignment following completion of a Mortgagee-Funded Cure. A Mortgagee-Funded Cure is complete only after the Borrower has made at least one year of Property Charge payments during which the Mortgagee has not advanced any additional funds on the Borrower's behalf. The Mortgagee must identify the Mortgagee-Funded Cure in HERMIT under the "Alerts" tab as follows:

- New – select "Insurance Default" or "Tax Default;"
- Alert Date – enter the date of the Mortgagee-Funded Cure;
- Expiration Date – enter the Alert Date plus three years;
- Alert Amount – enter the amount funded by the Mortgagee;
- Status – enter "Active;" and
- Alert Note – enter "Mortgagee-Funded Cure."

The Mortgagee will not be reimbursed for any amount greater than the HECM's MCA in any claim for FHA insurance benefits.

iii. Required Documentation

(A) Due and Payable Notice

Where the Borrower has failed to cure the default and the HECM has been called Due and Payable, the Mortgagee must provide the Borrower a Due and Payable notice in accordance with HUD's Due and Payable policies.

(B) Property Charge Loss Mitigation Extension for Repayment Plans

When an extension to the foreclosure time frames is taken due to the use of a Repayment Plan, the Mortgagee must upload in HERMIT a fully executed Repayment Plan agreement that provides the following information:

- date of agreement;
- total outstanding arrearage;
- monthly surplus income amount;
- Repayment Plan term;
- monthly Repayment Plan amount; and
- due date of next monthly Repayment Plan amount.

(C) Ongoing Reporting Requirements for Repayment Plans

When a HECM becomes eligible to be called Due and Payable as a result of the Borrower's failure to pay property taxes and/or Hazard Insurance, the Mortgagee must report the default event using HERMIT.

While a HECM is on a Repayment Plan, the Mortgagee must update HERMIT monthly with the following information:

- total outstanding arrearage;
- monthly surplus income;
- term of Repayment Plan;
- amount of monthly Repayment Plan payment;
- due date of next monthly payment;
- when a Borrower experiences a hardship; and
- reason for hardship.

When the default is subsequently cured, the Mortgagee must upload supporting documentation into HERMIT, reflecting the resolution of the default.

d. Initiation of Foreclosure and Reasonable Diligence Time Frames (03/25/2024)

i. Initiation of Foreclosure

(A) Case Numbers Assigned before September 19, 2017

If a HECM has not been satisfied or the default cured in response to a Due and Payable notification to the Borrower, the Mortgagee must commence foreclosure by taking the first legal action identified in Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames as required by the state in which the Property is located. The first legal action to initiate foreclosure must occur:

- no later than six months after the earliest of either:
  - the death of the last surviving Borrower, unless there is an applicable Deferral Period;
  - the end of any applicable Deferral Period; or
  - the Mortgagee's notice to the Borrower that the HECM is Due and Payable when the HECM is Due and Payable for reasons other than death; or
- within an extended time frame as approved by HUD.

If federal bankruptcy law or the laws of the state, city, or municipality in which the HECM Property is located do not permit the commencement of foreclosure within the above referenced time frame, the Mortgagee must commence foreclosure within six months after the period during which foreclosure is prohibited by such laws.

Where state privacy laws impair the Mortgagee's ability to acquire relevant information about the death of a Borrower or an Eligible NBS, the Mortgagee must initiate foreclosure within three months from the date of the expiration of such period of impairment.

(B) Case Numbers Assigned on or after September 19, 2017

If a HECM has not been satisfied or the default cured in response to a Due and Payable notification, the Mortgagee must commence foreclosure by taking the first legal action identified in Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames as required by the state in which the Property is located. The first legal action to initiate foreclosure must occur:

- no later than six months after the earliest of either:
  - the date the Mortgagee notifies, or should have notified, HUD of the death of the last surviving Borrower unless there is an applicable Deferral Period;
  - the end of any applicable Deferral Period;
  - HUD's Due and Payable approval when the HECM is Due and Payable for reasons other than death; or

- the date the Mortgagee notifies, or should have notified, HUD of the conveyance of all title and no Borrower remains on title to the Property; or
- within the extended time frame as approved by the Secretary.

If federal bankruptcy law or the laws of the state, city, or municipality in which the HECM Property is located do not permit the commencement of foreclosure within the above referenced time frame, the Mortgagee must commence foreclosure within six months after the time during which foreclosure is prohibited by such laws.

Where state privacy laws impair the Mortgagee's ability to acquire relevant information about the death of a Borrower or an Eligible NBS, the Mortgagee must initiate foreclosure within three months from the date of the expiration of such period of impairment.

(C) Required Documentation

The Mortgagee must provide notice to HUD via HERMIT within 30 Days of initiating foreclosure using the appropriate timeline.

ii. Reasonable Diligence in Prosecuting Foreclosure

The Mortgagee must exercise reasonable diligence in prosecuting foreclosure proceedings from first legal action to completion, as indicated by acquiring title to and possession of the Property. Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames provides the Reasonable Diligence Time Frame established by HUD for each state.

iii. Available Extensions

(A) Borrower-Initiated Requests for Extensions to Sell the Property or Otherwise Satisfy the HECM

The Borrower or other party holding legal title to the Property may request additional time to:

- market and sell a Property securing a HECM if evidence can be provided demonstrating:
  - the Property is being actively marketed; or
  - closing or payoff delays associated with an executed sales contract; or
- satisfy a HECM if evidence can be provided demonstrating attempts to satisfy the HECM balance.

If the Mortgagee receives such a documented request, the Mortgagee must submit a 90-Day extension request with documentation to HUD through the appropriate HERMIT timeline. The Mortgagee may submit no more than two 90-Day Borrower-initiated extension requests under this section.

(B) Mortgagee Extension after Borrower's Failure to Sell or Satisfy the HECM

The Mortgagee may utilize one 90-Day extension to commence foreclosure following a fully documented, failed attempt by the Borrower, or the Borrower's estate or heir, or other party with legal authority to sell the Property or otherwise satisfy the HECM. The Mortgagee must include in the Servicing File evidence of the active marketing of the Property or attempts to satisfy the HECM balance, and document the use of the extension when submitting the claim.

This extension is provided only for the Mortgagee's operational purposes of meeting the deadline for taking first legal action to foreclose.

(C) Mortgagee Extension for Property Charge Loss Mitigation

Where the Mortgagee is willing to offer the Borrower an available Loss Mitigation Option, the Mortgagee may request a property charge loss mitigation extension to the foreclosure time frame in HERMIT using the appropriate timeline, provided all requirements established in this section are met.

Any approved extension of the foreclosure time frames ceases immediately if, at any point, the Mortgagee determines:

- that no Loss Mitigation Options are viable;
- the Borrower is unwilling to reimburse the property charge payments advanced on their behalf evidenced either by self-certification or non-communication with a Mortgagee for 60 Days;
- the Borrower is unable to cure the default; or
- the last surviving Borrower dies.

Any request for an extension to a foreclosure time frame due to the Mortgagee's election to offer a permissible Loss Mitigation Option under this section must include documentation that the eligibility requirements have been met.

(D) Mortgagee Extension for Borrower Participation in Local, State, or Other Government Property Charge Assistance Programs

(1) Definition

Local, State, or Other Government Property Charge Assistance Programs, for purposes of HECM, refers to funds available from state agency programs to assist Borrowers with resolving property charge defaults. The funds from these programs are a lump sum provided to the Mortgagee to be used to cure the Borrower's default.

(2) Standard

When a Borrower is receiving funds through a local, state, or other government property charge assistance program, the Mortgagee may request a 60-Day

extension to the time frames for commencing foreclosure or reasonable diligence in completing foreclosure, provided that:

- the Mortgagee receives notification from the local, state, or other government property charge assistance program, that the Borrower has applied for funds;
- the Mortgagee obtains a copy of the Borrower's approval from the state Housing Finance Agency (HFA) or other entity administering a state's program; or
- the program requires a foreclosure action to be suspended.

If the Mortgagee elects to pursue this extension, the Mortgagee must submit the request with documentation to HUD using the appropriate HERMIT timeline. The program funds must be received and applied within the 60-Day extension period. After a property charge default is cured, the Mortgagee must request rescission of the HECM's Due and Payable approval through the appropriate timeline in HERMIT.

If the program funds are not received, are not disbursed on behalf of the Borrower, or do not adequately cure the default within the 60-Day extension period, the Mortgagee must proceed in accordance with the applicable foreclosure time frames. The Mortgagee must retain documentation regarding any local, state, or other government property charge assistance program-related delay in initiating or completing foreclosure in its Servicing File in order to avoid curtailment.

iv. Curing the Default

(A) To Reinstate the HECM

At any time prior to a foreclosure sale, the Mortgagee must permit the Borrower to cure the default and reinstate the HECM, unless:

- the Mortgagee has accepted reinstatement of the HECM within the past two years immediately preceding the current notification to the Borrower that the HECM is Due and Payable;
- reinstatement will preclude foreclosure if the HECM becomes Due and Payable at a later date; or
- reinstatement will adversely affect the priority of the HECM lien.

The Mortgagee may require the Borrower to pay any foreclosure costs and reasonable attorney fees incurred in connection with a canceled foreclosure by adding the expenses to the outstanding HECM balance.

(B) To Reinstate a Deferral Period

At any time prior to a foreclosure sale, the Mortgagee must permit an Eligible NBS to cure the condition that resulted in the Deferral Period ceasing, and reinstate the Deferral Period, unless:

- the Mortgagee has reinstated the Deferral Period within the past two years immediately preceding the latest notification to the Eligible NBS that the HECM is Due and Payable;
- reinstatement of the Deferral Period will preclude foreclosure if the HECM becomes Due and Payable at a later date; or
- reinstatement of the Deferral Period will adversely affect the priority of the first and second HECM liens.

To reinstate the Deferral Period, the Mortgagee may require the Eligible NBS to pay any costs the Mortgagee incurred in connection with a canceled foreclosure. The Mortgagee must not add these costs to the outstanding HECM balance.

v. Bidding at Foreclosure Sale

At the foreclosure sale, the Mortgagee must bid the lesser of:

- the full debt, consisting of the outstanding HECM balance and any and all other incurred expenses; or
- the current appraised value of the Property.

vi. Deed-in-Lieu of Foreclosure

(A) Definitions

A Deed-in-Lieu (DIL) of Foreclosure is an option for a property owner to deed a mortgaged Property to the Mortgagee in lieu of the Mortgagee taking title through a foreclosure action.

Due and Payable Date refers to the date when the Mortgagee notifies or should have notified the Commissioner that the Mortgage is Due and Payable under the conditions stated in the Mortgage or the date that a Deferral Period ends, or the date the Commissioner approved a Due and Payable request submitted by the Mortgagee.

(B) Standard

The Mortgagee must accept a DIL of Foreclosure from the Borrower or other party with legal right to dispose of the Property provided:

- the Mortgagee is able to obtain good and marketable title; and
- for HECMs with FHA case numbers assigned on or after September 19, 2017, the Mortgagee files the DIL of Foreclosure for recording within nine months of the due date.

Within 30 Days of receipt of the executed and delivered DIL, the Mortgagee must:

- deliver to the Borrower the canceled Note;
- record the satisfaction of the HECM lien; and
- where applicable, request that HUD release the second HECM lien.

vii. Cash for Keys Consideration

(A) Definition

Cash for Keys refers to a monetary consideration offered as an incentive to expedite a DIL, a Short Sale, or as an alternative to legal eviction.

(B) Standard

The Mortgagee may offer the Cash for Keys where:

- the Borrower or other party with a legal right to do so vacates the Property and provides a DIL to the Mortgagee;
- the Borrower or other party with a legal right to do so sells the Property as a Short Sale consistent with FHA requirements; or
- all occupants vacate the Property prior to an eviction completed by the Mortgagee.

The Mortgagee must send a Cash for Keys offer letter using a delivery method that provides the date of delivery. The date of the Cash for Keys offer letter for determining the amount of the Cash for Keys incentive is the date the offer is received by the Borrower or occupants of the Property.

The total claim calculated before the addition of any incentive or Cash for Keys must not exceed the MCA. The total claim, including any claimable incentive or Cash for Keys, must not exceed the FHA Statutory MCA for the HECM. The Statutory MCA means the mortgage limit for a one-family residence secured by a HECM as of the date of loan closing. The amount of Cash for Keys may not exceed the amounts described in the table below:

Cash For Keys Incentives		
Incentive Type	Time Frame	Incentive
DIL	Completed within 365 Days from Due and Payable Date	$7,500 + probate costs not to exceed $5,000 (Any probate costs claimed over $500 require supporting documentation.)
	Completed 366 Days to 547 Days from Due and Payable Date	$5,000 + probate costs not to exceed $5,000 (Any probate costs claimed over $500 require supporting documentation.)
Short Sale	Completed within 365 Days from Due and Payable Date	$7,500 + probate costs not to exceed $5,000 (Any probate costs claimed over $500 require supporting documentation.)

Cash For Keys Incentives		
	Completed 366 Days to 547 Days from Due and Payable Date	$5,000 + probate costs not to exceed $5,000 (Any probate costs claimed over $500 require supporting documentation.)
Post-Foreclosure Eviction Avoidance	If the Property is vacated within 60 Days of the Cash for Keys offer	$7,500
	If the Property is vacated within 90 Days of the Cash for Keys offer	$5,000

Before releasing the funds for a DIL or a post-foreclosure eviction avoidance incentive, the Mortgagee must inspect the Property to ensure that:

- the Property is in Broom-swept Condition; and
- all built-in appliances and fixtures remain in the Property.

Allowable probate costs are court costs, attorney's fees, notary fees, fees for required notices, and mailing/copy fees.

(C) Required Documentation

Where Cash for Keys is offered in relation to a DIL, the Mortgagee must provide documentation with the claim in HERMIT showing the date and amount of consideration offered, along with the date:

- the DIL was executed and returned to the Mortgagee;
- the DIL was filed for recording;
- the occupant vacated the Property; and
- the occupant received the funds.

Where Cash for Keys is offered as part of a Short Sale, the Mortgagee must provide documentation with the claim in HERMIT showing:

- the date of the sale closing;
- the date and amount of the offer; and
- the date the occupant received the funds.

Where Cash for Keys is offered to an occupant as an alternative to eviction post-foreclosure, the Mortgagee must provide documentation with the claim in HERMIT showing:

- the date of the foreclosure sale;
- evidence the Mortgagee was the successful bidder;
- the date and amount of the relocation offer;
- the date of the actual vacancy; and
- the date the occupant received the funds.

Mortgagees must provide supporting documentation for any probate costs over $500 as part of their claim by uploading the documentation into the HERMIT system.

e. Sale of Property Acquired through Foreclosure or DIL (04/29/2024)

Where the Mortgagee intends to submit an Acquired Property Claim (Claim Type 21), the Mortgagee must:

- take possession of the Property;
- preserve and protect the Property in accordance with Appendix 7.0 – Property Preservation Allowances and Schedules; and
- make a diligent effort to sell the Property within six months from the date the Mortgagee acquired the Property, or within such additional time as provided by HUD.

The Mortgagee must sell the Property for an amount no less than the current appraised value unless the Mortgagee obtains written permission from HUD authorizing a sale at a lower price.

i. Repairs

The Mortgagee must repair the Property only to the extent the repairs do not exceed those required:

- by local law; or
- by HUD or the Department of Veterans Affairs (VA), if the sale of the Property is being financed using an FHA-insured or VA-guaranteed mortgage.

The Mortgagee must not make any other repairs without specific advance approval from HUD. The Mortgagee must submit an over-allowable request using the appropriate timeline in HERMIT.

ii. Closing Costs

For case numbers assigned on or after September 19, 2017, the Mortgagee may be reimbursed for allowable closing costs associated with the sale of the Property in an amount not to exceed 11 percent of the sales price.

Allowable closing costs may include:

- a sales commission at a rate customarily paid in the community; and
- other reasonable and customary expenses incurred in connection with the sale of the Property.

iii. Prohibited Conflicts of Interest

The Mortgagee must not enter into a contract for the preservation, repair, or sale of the Property with any:

- officer, employee, or owner of 10 percent or more interest in the Mortgagee;

- other person or organization having an Identity of Interest with the Mortgagee; or
- Family Member of such officer, employee, owner, or person.

f. Claims (11/10/2026)

i. Claim Guidance

(A) Claim Not Permitted after Satisfaction of a HECM by Payoff

A Mortgagee must not file a claim for insurance benefits when the HECM is satisfied in full.

A bid by any party other than the Mortgagee at a foreclosure sale for the full debt, consisting of the outstanding HECM balance and any and all other incurred expenses, will result in a full Payoff of the HECM. In such cases, the Mortgagee must not file a claim for insurance benefits.

(B) Contract of Insurance Not Terminated

The Mortgagee may only file a claim for insurance benefits where the contract of insurance has not terminated.

(C) Time Frames for Filing Claims

(1) Case Numbers Assigned before September 19, 2017

The Mortgagee must file a claim within 15 Days of:

- the Mortgagee selling the Property acquired through foreclosure or DIL;
- a sale by the Borrower or other party with legal right to dispose of the Property;
- satisfaction of the HECM by the Borrower's estate or heir; or
- assignment of the HECM to the Secretary.

(2) Case Numbers Assigned on or after September 19, 2017

The Mortgagee must file a claim within 30 Days of:

- the Mortgagee selling the Property acquired through foreclosure or DIL;
- a sale by the Borrower or other party with legal right to dispose of the Property; or
- satisfaction of the HECM by the Borrower's estate or heir.

The Mortgagee must file a claim within 15 Days of assignment of the HECM to the Secretary.

If the Property will not be sold within six months from the foreclosure sale date where the Mortgagee was the successful bidder, the Mortgagee must file a claim no later than 30 Days after the end of the six-month period. The Mortgagee must

use a valid appraisal, substituting the appraised value for the sales price of the Property.

(D) Claims Filed in HERMIT

All HECM claims must be filed with supporting documentation in HERMIT using the appropriate timeline. The unpaid principal balance of the HECM is capped as of the due date. The Mortgagee must itemize all allowable expenses incurred after the Due and Payable Date.

(E) Claims Limited by Maximum Claim Amount

(1) Case Numbers Assigned before September 19, 2017

In no case may the claim paid exceed the MCA. The interest allowance provided in 24 CFR § 206.129(d)(3)(x), (e)(2), and (f)(2)(i) will not be included in determining the limit on the claim amount.

(2) Case Numbers Assigned on or after September 19, 2017

In no case may the claim paid exceed the MCA. The interest allowance provided in 24 CFR § 206.129(d)(3)(x), (e)(2), and (f)(2)(ii) will be made in cash in the amount determined under the regulations and will be included in determining the limit on the claim amount.

(F) Debenture Interest Rate

(1) Definitions

For purposes of payment of debenture interest, the Date of Default is the Due and Payable Date.

The Semi-Annual Rate is the rate in effect for debentures listed at https://www.hud.gov/hud-partners/housing-debenture-interest-rates.

The 10-Year CMT Rate is the rate in effect on United States Treasury Securities adjusted to a constant maturity of 10 years listed at https://www.hud.gov/hud-partners/housing-debenture-interest-rates.

(2) Standard

(a) Mortgages Endorsed before January 23, 2004, Regardless of when a Claim is Filed and Mortgages Endorsed on or after January 23, 2004, with a Due and Payable Date prior to September 19, 2017

The debenture interest rate is the higher of:

- the Semi-Annual Rate as of the date the commitment was issued, if applicable; or
- the Semi-Annual Rate as of the date the Mortgage was endorsed.

(b) Mortgages Endorsed after January 23, 2004, that have a Due and Payable Date on or after September 19, 2017, and before September 28, 2024

The debenture interest rate is the higher of:

- the Semi-Annual Rate for the commitment was issued, if applicable;
- the Semi-Annual Rate for the month Mortgage was endorsed; or
- the 10-Year CMT Rate for the month the Mortgage became Due and Payable.

(c) Mortgages Endorsed after January 23, 2004, with a Due and Payable Date on or after September 28, 2024

The debenture interest rate is the 10-year CMT rate for the month the Mortgage became Due and Payable.

(G) Curtailment of Interest for Noncompliance with HUD HECM Program Requirements

Causes for curtailment of interest include, but are not limited to, the Mortgagee's failure to:

- timely request due and payable approval from HUD within 30 Days of the occurrence of a Due and Payable event for which HUD approval is needed;
- timely provide notice to HUD of the death of the last surviving Borrower or conveyance of title within 60 Days of the occurrence of the Due and Payable event;
- timely provide notice to HUD within 60 days after the end of the Deferral Period;
- timely provide the required due and payable notice to the Eligible NBS within 30 Days after the end of the Deferral Period;
- timely provide the required due and payable notice to the Borrower, their estate, heir, or other party with legal title to the Property that the HECM is Due and Payable within 30 Days of providing notice to HUD of the Due and Payable event or receiving HUD approval when needed;
- comply with the required appraisal time frames;
- timely commence foreclosure, when applicable;
- timely provide notice to HUD after commencing foreclosure, meeting reasonable diligence requirements, or meeting reporting requirements, pursuant to Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames; and
- timely file claims for payment of insurance benefits.

The Mortgagee must self-curtail claims for failure to meet any of FHA's requirements or reasonable diligence time frames of 24 CFR §§ 206.125 and 206.127 except to the extent those time frames are extended by HUD, as authorized by law. In that event, the Mortgagee must self-curtail claims when they fail to comply within the extended time. The Mortgagee must state the reason for curtailment in the "Mortgagee Comments" section of the claim in HERMIT.

If the Mortgagee does not self-curtail when reasonable diligence time frames are not met, the Mortgagee must fully document in HERMIT the reasons for delays that were outside of the Mortgagee's control.

(H) Reporting Use of Mortgagee Extension

If applicable, the Mortgagee must enter the expiration date of the 90-Day extension period in the block identified for extensions in the claim in HERMIT and note the use of the extension in the "Mortgagee's Comments" section.

(I) Mortgagee Incentives

FHA will pay an incentive fee to Mortgagees for completion of a Short Sale or a DIL in the amount of $1,500. The Mortgagee must enter the incentive amount in block 305 of form HUD-27011, *Single-Family Application for Insurance Benefits*.

(J) Probate Costs

Where permitted to be paid as a Cash for Keys incentive, probate costs may not exceed $5,000. Any probate costs claimed over $500 require supporting documentation. The probate costs must be reasonable and customary for the area. The Mortgagee must enter the probate costs in block 305 of form HUD-27011.

ii. Acquired Property Claims (Claim Type 21)

Date of Marketable Title for HECM Claims

The Mortgagee must use the latter of the following in determining the "Date of Possession and Acquisition of Marketable Title" on the claim:

- the date of possession, including when eviction is required;
- the date of the foreclosure sale;
- the date title is obtained by a third-party bidder; or
- the date the redemption period, if applicable, has ended.

iii. Assignment Claims (Claim Type 22)

The Mortgagee may file a HECM Assignment Claim (Claim Type 22) upon successful assignment of a HECM to HUD.

iv. Short Sale Claims (Claim Type 23)

The Mortgagee may file a HECM Short Sale Claim (Claim Type 23) in cases where:

- the Borrower sold the Property, but the sales proceeds were insufficient to satisfy the HECM, provided:
  - the Property was sold for at least the current appraised value if the HECM was not Due and Payable; or
  - the Property was sold for at least 95 percent of the current appraised value if the HECM was Due and Payable; or
- the HECM was extinguished by sale or transfer after death or, if applicable, the end of a Deferral Period, provided the Mortgagee received, in exchange for the extinguishment of the HECM, at least the lesser of:
  - the HECM balance; or
  - 95 percent of the current appraised value of the Property.

(A) Claim Calculation – Case Number Assigned before September 19, 2017

The claim amount will include:

- the total of the following:
  - the HECM balance, including any accrued interest, MIP, and servicing fees that have been added to the HECM balance;
  - any accrued note rate interest, MIP, or servicing fees that have not been added to the HECM balance on the date the deed is recorded; and
  - the amount of allowances for items set forth in 24 CFR § 206.129(d)(3)(i)–(vii) and (d)(3)(xii) as applicable;
- less the proceeds received from the Borrower, the Borrower's estate, or heir;
- plus, if the short sale occurred after the initiation of foreclosure, the total of the items set forth in 24 CFR § 206.129(d)(3)(vi) and (ix), as applicable.

The claim will also include debenture interest from the date the deed is recorded to the date when the claim is paid, providing the Mortgagee has complied with all applicable time frames required. Where the Mortgagee has failed to meet any of the applicable requirements within the specified time, or additional time approved by HUD, the interest allowance will be computed only to the date on which the particular action should have been taken or to which it was extended.

(B) Claim Calculation – Case Number Assigned on or after September 19, 2017

(1) HECM Not Due and Payable

When the HECM is not in Due and Payable status, the claim will include:

- the total of the following:
  - the HECM balance, including any accrued interest, MIP, and servicing fees that have been added to the HECM balance;
  - any accrued note rate interest, MIP, and servicing fees that have not been added to the HECM balance on the date the deed is recorded; and

  - allowable closing costs incurred in connection with the sale of the Property in an amount not to exceed the greater of 11 percent;
- less the proceeds received from the Borrower, the Borrower's estate, or heir.

The claim will also include debenture interest from the date the deed is recorded to the date when the claim is paid, provided the Mortgagee has complied with all applicable time frames required. Where the Mortgagee has failed to meet any of the applicable requirements within the specified time, or additional time approved by HUD, the interest allowance will be computed only to the date on which the particular action should have been taken or to which it was extended.

(2) HECM Due and Payable

When the HECM is in Due and Payable status, the claim will include:

- the total of the following:
  - the HECM balance, including any accrued interest, MIP, and servicing fees that have been added to the HECM balance;
  - any accrued interest, MIP, and servicing fees that have not been added to the outstanding HECM balance as of the due date;
  - allowable closing costs incurred in connection with the sale of the Property in an amount not to exceed the greater of 11 percent or any fixed dollar amount as approved by HUD through the Federal Register notice as set forth in 24 CFR § 206.129(d)(3)(xiii)(C); and
  - the remaining items set forth in 24 CFR § 206.129(d)(3);
- less the proceeds received from the Borrower, the Borrower's estate, or heir.

The claim will also include debenture interest from the due date to the date the claim is paid, providing the Mortgagee has complied with all applicable time frames required. Where the Mortgagee has failed to meet any of the applicable requirements of 24 CFR §§ 206.125 and 206.127 within the specified time determined by the due date, or additional time approved by HUD, the interest allowance will be computed only to the date on which the particular action should have been taken or to which it was extended.

v. Supplemental Claims (Claim Type 24)

The Mortgagee may file one supplemental claim (Claim Type 24) to correct a previous claim or to claim an item omitted in a previous claim. Where the Mortgagee wishes to file a supplemental claim, the Mortgagee must submit such claim within six months of the date the initial claim was paid.

3. Programs and Products

a. Presidentially-Declared Major Disaster Areas (04/29/2024)

i. Disaster Declarations

Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, the President has authority to declare a major disaster for any area which has been affected by damage of sufficient severity and magnitude to warrant major disaster assistance. Disaster declarations and information regarding available federal assistance for each disaster incident are posted on the Federal Emergency Management Agency's (FEMA) website.

Whenever the President declares a major disaster, the Mortgagee must implement the procedures set forth in this section for each designated area that is eligible for federal disaster assistance.

ii. Moratorium on Foreclosures

(A) Standard

The Mortgagee must observe a moratorium on foreclosures of FHA-insured HECMs secured by Properties located in Presidentially-Declared Major Disaster Areas (PDMDA) following the disaster declaration. The foreclosure moratorium is:

- applicable only if the HECM is Due and Payable for reasons other than the death of the last remaining Borrower and is not subject to a Deferral Period;
- effective for a 90-Day period beginning on the date of the disaster declaration for that area (HUD may communicate further specific guidance for extension of moratorium periods for individual disasters); and
- applicable to the initiation of foreclosures and foreclosures already in process.

During the foreclosure moratorium, Mortgagees are granted an automatic 90-Day extension for all servicing deadlines, including the deadlines for requesting to call a HECM Due and Payable and providing notice to HUD of loans which have automatically become Due and Payable.

HUD provides the Mortgagee an automatic 90-Day extension from the date of the moratorium expiration date to commence or recommence foreclosure action or evaluate the Borrower for loss mitigation. Where foreclosure has not been initiated, the Mortgagee may submit a request for an extension to HUD's foreclosure-related deadlines through Home Equity Reverse Mortgage Information Technology (HERMIT) when prohibited from performing a required activity due to the foreclosure moratorium.

(B) Required Documentation

The Mortgagee must retain in its Claim File any approved extensions from HUD related to a foreclosure moratorium. Where foreclosure was initiated prior to the

effective date of the moratorium, the Mortgagee must retain in its Claim File documentation of any delay to the Reasonable Diligence Time Frame related to a foreclosure moratorium.

(C) Hazard or Flood Insurance Settlement

The Mortgagee must take no action to initiate or complete foreclosure proceedings after expiration of a disaster-related foreclosure moratorium, if such action will jeopardize the full recovery of a hazard or flood insurance settlement.

iii. Monitoring of Repairs to Substantially Damaged Homes

(A) Definition

A building is considered to be "Substantially Damaged," as defined in the National Flood Insurance Program (NFIP) regulations, when "damage of any origin is sustained by a structure whereby the cost of restoring the structure to its before damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred."

(B) Standard

The Mortgagee must take appropriate actions to ensure that repairs to Substantially Damaged Properties comply with the federal building elevation standards, including those established by FEMA. The Mortgagee must ensure compliance with any higher applicable building elevation standard adopted by the state or local government.

b. Mortgagee Optional Election Assignment (04/29/2024)

The Mortgagee Optional Election (MOE) provides the Mortgagee an option to assign the HECM or foreclose in accordance with the terms of the HECM. The option is available for cases with an FHA case number assigned prior to August 4, 2014 and associated with an Eligible Surviving Non-Borrowing Spouse (NBS).

A MOE Assignment claim is the only alternative path to claim payment outside of existing regulations for HECMs with FHA case numbers assigned prior to August 4, 2014; no other alternative path to claim payment exists.

The Mortgagee may elect to proceed in accordance with the amendment provided by this section, which provides for a MOE Assignment of an eligible HECM immediately after the death of the last surviving Borrower or upon a Borrower's residence in a health care facility for more than 12 consecutive months, provided all of the conditions and requirements established in this section are satisfied. If the Mortgagee elects the MOE Assignment option, the Mortgagee must adhere to the guidance herein.

Alternatively, the Mortgagee may elect to enforce its private contractual rights in accordance with the terms of the Note, security instrument, or HECM loan agreement. If the Mortgagee

elects to foreclose in accordance with the terms of the HECM, the Mortgagee must adhere to HUD's Due and Payable policies.

i. Definitions

HECM Borrower refers to the original Borrower under a Note and Mortgage. The term does not include successors or assigns of a Borrower.

MOE Assignment Deferral Period refers to the period of time following the death of the last surviving Borrower for an eligible HECM with an FHA case number assigned prior to August 4, 2014, and associated with an Eligible Surviving NBS, during which time the Due and Payable status of a HECM is deferred based on the continued satisfaction of the requirements for an Eligible Surviving NBS under this section and all other FHA requirements.

Non-Borrowing Spouse (NBS) refers to the spouse of a HECM Borrower who is not also a Borrower.

Eligible Surviving Non-Borrowing Spouse (NBS), for the purpose of MOE Assignment, refers to an NBS of a HECM Borrower where the HECM was assigned an FHA case number prior to August 4, 2014 and meets the eligibility requirements identified by HUD.

Principal Residence refers to the dwelling where the Borrower and, if applicable, an NBS maintain their permanent place of abode, and typically spend the majority of the calendar year. A person may have only one Principal Residence at any one time and the Property is considered to be the Principal Residence:

- of any Borrower who is temporarily in a health care institution provided the Borrower's confinement to a health care institution does not exceed 12 consecutive months;
- of any NBS who is temporarily in a health care institution, as long as the Property is the Principal Residence of their Borrower spouse, who physically resides in the Property;
- of any NBS who occupies the property as their Principal Residence, when the Borrower resides in a health care institution for a length of time; and
- during a Deferral Period of the NBS, who is temporarily in a health care institution, provided the Eligible NBS physically occupied the Property immediately prior to entering the health care institution and such confinement does not exceed 12 consecutive months.

Due and Payable Date, for purposes of MOE claim payment, refers to the date when a Mortgagee notifies HUD that it has determined not to utilize the MOE Assignment or has determined that the HECM is not eligible for assignment.

Ability to Purchase or Sell

After the death of the last Borrower, an NBS may elect to satisfy the HECM and retain the Property securing the HECM for the lesser of the unpaid principal balance or 95 percent of the Property's appraised value.

Regardless of the presence of any NBS, the Property securing the HECM may be sold by the Borrower's estate for the lesser of the unpaid principal balance or 95 percent of the Property's appraised value.

Nothing in this section may be construed as interrupting or interfering with the ability of the Borrower's estate to dispose of the Property if they are otherwise legally entitled to do so.

Regardless of a Mortgagee's election under this section, the Mortgagee may provide any Eligible Surviving NBS or the Borrower's estate with an opportunity to purchase or to market and sell the Property in accordance with HUD's Due and Payable policies.

ii. Standard

(A) Required Notifications

(1) Notification to Borrower of Assignment

When a HECM with an FHA case number assigned before August 4, 2014 reaches 98 percent of the Maximum Claim Amount (MCA) prior to the death of the last surviving Borrower and the Mortgagee exercises its option to assign the HECM to the Secretary, the Mortgagee must notify the Borrower:

- that the HECM is being assigned to the Secretary;
- that if the Borrower is married to an NBS, the NBS may be eligible for a Deferral Period provided the qualifications of an Eligible Surviving NBS are met and all of the conditions and requirements for a Deferral Period are, and continue to be, met; and
- of the requirements for an Eligible Surviving NBS as well as the conditions and requirements for an applicable Deferral Period.

(2) Notice of Election to Eligible Surviving Non-Borrowing Spouse and/or Borrower's Estate

Within 30 Days after the Mortgagee's election to either pursue a MOE Assignment or foreclose, the Mortgagee must provide notice based on the election made under this section.

If the Mortgagee elects to pursue a MOE Assignment, the Mortgagee must provide the eligibility requirements to the Eligible Surviving NBS and Borrower's estate.

If the Mortgagee elects to pursue foreclosure, the Mortgagee must inform the Eligible Surviving NBS and the Borrower's estate that the Mortgagee will provide a period not to exceed six months during which the Eligible Surviving NBS or the Borrower's estate may satisfy the HECM or market and sell the Property in accordance with this section.

(3) Notification to HUD of Borrower's Death

Within 60 Days of the Borrower's death, the Mortgagee must notify HUD, via HERMIT, that the HECM is eligible to be called Due and Payable under the original terms of the HECM entered into between the Mortgagee and the Borrower.

(4) Mortgagee Optional Election to Assign for HECMs with Case Numbers Assigned before August 4, 2014

For cases where the last surviving Borrower is survived by an NBS, the Mortgagee must enter the Borrower's date of death in HERMIT and then follow the requirements and conditions for the Mortgagee Optional Election to assign.

Where the Mortgagee elects to pursue a MOE Assignment, the Mortgagee must **not** complete the Due and Payable timeline in HERMIT until such time as the Deferral Period ends.

Where the Mortgagee elects to foreclose in accordance with the terms of the HECM, the Mortgagee must complete the appropriate Due and Payable timeline in order to provide HUD the required notification.

(B) Mortgagee Election of MOE Assignment

To notify HUD of its election to pursue a MOE Assignment, the Mortgagee must upload into HERMIT a statement of such election on company letterhead, at which time the HECM will begin a Deferral Period.

(C) MOE Assessment

The Mortgagee must perform an assessment to determine whether the NBS and the HECM meet the eligibility requirements for a MOE Assignment.

iii. Eligibility Requirements for MOE Assignment

(A) Non-Borrowing Spouse Eligibility Requirements

Where the Mortgagee has made the MOE Assignment election, an NBS of a Borrower is an Eligible Surviving NBS when the NBS:

- was either:

  - legally married, as determined by the law of the state in which the spouse and Borrower reside(d) or the state of celebration, to the Borrower at the time of HECM closing and remained married to the Borrower until the Borrower's death; or
  - engaged in a committed relationship with the Borrower akin to marriage but was prohibited, at the time of HECM origination, from legally marrying the Borrower based on the sex of both the Borrower and the NBS, but was legally married prior to the death of the Borrower, as determined by the law of the state in which the spouse and the Borrower reside(d) or the state of celebration, to the Borrower and:
    - remained married until the Borrower's death; or
    - remains married to the Borrower, in situations in which the Borrower has resided in a health care institution for more than 12 consecutive months; and
- currently resides and resided in the Property secured by the HECM as their Principal Residence at origination of the HECM and throughout the duration of the Borrower's life.

(B) HECM Eligibility Requirements for MOE Assignment to HUD

Where the Mortgagee has made the MOE Assignment election, only a HECM that satisfies the following requirements can be assigned:

- the HECM was assigned an FHA case number prior to August 4, 2014;
- there is an Eligible Surviving NBS;
- the Eligible Surviving NBS agrees to certify annually that all eligibility requirements continue to be satisfied;
- the HECM is not in default or eligible to be called Due and Payable for any reason other than the death of the last surviving Borrower;
- there are no allegations or claims that would invalidate the HECM or any such allegations or claims have been judicially resolved in favor of the Mortgagee;
- the Mortgagee has taken all steps necessary to ensure the HECM remains a valid and legally enforceable first lien under state law and no statute of limitations or other barrier exists to the exercising of rights to gain good, marketable title under the HECM;
- the Mortgagee agrees to indemnify the Secretary for any loss incurred as a result of any impediment to the Secretary obtaining good and marketable title, unless such loss is solely due to acts of the Secretary after assignment; and
- the Mortgagee has obtained all required information, certifications, and agreements from any Eligible Surviving NBS and any other necessary party as set forth herein.

A HECM that is subject to a pre-existing loss mitigation Repayment Plan for unpaid Property Charges must be brought current on all Property Charges in order for the HECM to be eligible for a MOE assignment.

iv. MOE Assignment Process and Documentation Requirements

A Mortgagee may not assign a HECM to HUD where the MOE Assignment Deferral Period has ceased, but may assign a HECM after the MOE Assignment Deferral Period has been reinstated in accordance with Termination and Reinstatement of the MOE Assignment Deferral Period. The Mortgagee must initiate the MOE Assignment process through HERMIT.

(A) Modification of Contract Prior to MOE Assignment

The Mortgagee must ensure that appropriate protections are put in place to ensure a valid, legally enforceable first lien will be assigned to HUD, which may include a modification of the HECM documents to provide the following provisions:

- a deferral of the Due and Payable status that ordinarily results from the death of the last surviving Borrower;
- the deferral must immediately cease upon the earliest occurrence of:
  - the death of any such Eligible Surviving NBS;
  - an Eligible Surviving NBS ceases to satisfy the definition requirements; or
  - the occurrence of an event besides death that would make the HECM eligible to be called Due and Payable;
- an obligation of any Eligible Surviving NBS to continue to meet all contractual obligations of the Borrower;
- an obligation of any Eligible Surviving NBS to meet the certification and other requirements; and
- an express waiver of any right to any Disbursement under the HECM Note, security agreement, and loan agreement.

The Mortgagee must take whatever action necessary, including modification if the Mortgagee deems it necessary, to preserve its ability to foreclose on the HECM should any of the following occur before the assignment to the Secretary has been completed:

- the NBS dies;
- the MOE Assignment Deferral Period ends; or
- any event of default, other than the death of the Borrower, occurs.

(B) Required Certifications

(1) MOE Assignment Required Mortgagee Certification

The Mortgagee must certify at assignment to the following:

> "I, , as authorized representative of , the Mortgagee, certify that I have personally reviewed the HECM documents as well as the information provided by , the Eligible Surviving Non-Borrowing Spouse, and certify that the following are true and correct:

1. The HECM is not eligible to be called Due and Payable for any reason other than in the case of the death of the last surviving Borrower or non-occupancy because the Borrower has resided in a health care facility for more than 12 consecutive months and all other obligations of the HECM Borrower have been and continue to be met;
2. There are no allegations or claims that would invalidate the HECM or any such allegations or claims have been judicially resolved in favor of the Mortgagee;
3. There is a valid, legally enforceable first lien with no impediments to securing good, marketable title;
4. [Insert as applicable based on Mortgagee's election: The HECM note, security agreement, and loan agreement have been modified establishing the conditions and requirements for the deferral of Due and Payable status as well as obligating any Eligible Surviving Non-Borrowing Spouse to continue to meet all contractual obligations and expressly waiving any right to any disbursements under the HECM note, security agreement, and the loan agreement]; and
5. I have determined that there [is/are] [#] Eligible Surviving Non-Borrowing Spouse(s), identified as [insert names], and have obtained all required information, acknowledgements, agreements, and certifications from such Eligible Surviving Non-Borrowing Spouse(s). I certify that the information provided in connection with this assignment is true and correct. I hereby agree on behalf of the Mortgagee that it will indemnify the Secretary for any amounts paid pursuant to this election should any of the information provided prove false. Further, I hereby agree on behalf of the Mortgagee that it will indemnify the Secretary any amounts paid pursuant to this election in the event the Secretary is subsequently impeded from obtaining good and marketable title as a result of the Mortgagee's failure to assign a valid, legally enforceable first lien."

I, the undersigned, certify under penalty of perjury that the information provided above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. § 3729, 3802).

(2) Optional Revision to Mortgagee Certification

Where a Mortgagee is unable, due to state law requirements, to truthfully certify to item number three in the Mortgagee Certification, the optional language that may be used is as follows:

"At assignment, there is a valid, legally enforceable first lien with no impediments to securing good, marketable title, and upon assignment, the

Secretary will have a valid, legally enforceable first lien with no impediments to securing good and marketable title."

Additionally, where a Mortgagee is unable, due to state law, to certify using the aforementioned language as is written, the Mortgagee may use the language below in lieu of the last sentence in the Mortgagee Certification:

"Further, I hereby agree on behalf of the Mortgagee that it will indemnify the Secretary for any amounts paid pursuant to this election in the event the Secretary is subsequently impeded from obtaining good and marketable title as a result of the Secretary's inability to enforce a valid, legally enforceable first lien."

(3) MOE Assignment Required Eligible Surviving Non-Borrowing Spouse Certification at MOE Assignment Election

The Mortgagee must obtain a signed agreement, acknowledgement, and certification at assignment from any Eligible Surviving NBS verifying the established conditions and requirements are met.

The agreement, acknowledgement, and certification must state:

"I hereby agree, acknowledge, and certify that I was married to and remained married to _____, a HECM Borrower, at the time the HECM was originated and throughout the remainder of their life. I certify that the information provided in this agreement, acknowledgement, and certification is true and correct. I acknowledge that my spouse's HECM is currently eligible to be called Due and Payable under the original terms of the HECM contract as a result of [his/her] death and that the Mortgagee is electing to assign my spouse's HECM to FHA. I further acknowledge and agree that if assignment is accepted, the HECM will not be called Due and Payable until my death or such time as I cease to be eligible for a deferral. As a result, I acknowledge that I will be permitted to remain in the property until my death provided I continue to comply with the terms of this agreement and certification. I further understand and agree that in order to qualify for a deferral of Due and Payable status, I must:

1. disclose and provide consent to the verification of my Social Security Number;
2. continue to occupy the property securing my spouse's HECM as my principal residence;
3. acknowledge and agree that I will receive no disbursements from my spouse's HECM;
4. ensure that all obligations of the HECM Borrower continue to be satisfied without reliance on any disbursement from the HECM, including the obligation to pay property charges and insurance even if

the HECM would have allowed for the payment of these charges from the available proceeds;

5. ensure the HECM is not and will not become eligible to be Due and Payable for any reason other than the death of the last surviving Borrower or non-occupancy because the Borrower has resided in a health care facility for more than 12 consecutive months;
6. annually certify that all conditions necessary for assignment are and continue to be met; and
7. provide any documentation required by the Mortgagee to evidence my compliance with the requirements of the assignment and deferral of Due and Payable status.

I agree and acknowledge that should any of these obligations cease to be met the Deferral Period shall cease, my spouse's HECM will immediately become Due and Payable, and, as a result, I must satisfy the HECM in accordance with existing HUD policy in order to remain in the property further."

I, the undersigned, certify under penalty of perjury that the information provided above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).

(C) Required Documentation

The Mortgagee must secure the following information, certifications, and enforceable agreements and provide documentation of such with the assignment:

- any Eligible Surviving NBS's Social Security Number (SSN);
- that the Property is and has been, since the origination of the HECM, the Principal Residence of any Eligible Surviving NBS, and obtain a written agreement from such Eligible Surviving NBS that they will continue to occupy the Property securing the HECM as their Principal Residence;
- that all obligations of the Borrower(s) contained in the HECM documents have been and continue to be satisfied, and obtain a written agreement from any Eligible Surviving NBS to continue to satisfy the obligations of the Borrower(s);
- written acknowledgement and agreement from the Eligible Surviving NBS that no further Disbursements under the HECM are required to be or will be made;
- written acknowledgement and agreement from the Eligible Surviving NBS that the HECM may immediately be called Due and Payable if any event of default other than the death of the last surviving Borrower or non-occupancy because the Borrower has resided in a health care facility for more than 12 consecutive months occurs at any time; and

- written acknowledgement and agreement from any Eligible Surviving NBS that the HECM will become immediately Due and Payable should the Eligible Surviving NBS cease to meet any of the eligibility requirements, conditions for acceptance, or ongoing obligations under the HECM.

v. Termination and Reinstatement of the MOE Assignment Deferral Period

If an NBS fails to meet, or ceases to meet at any time, the definition of an Eligible Surviving NBS, the MOE Assignment Deferral Period terminates immediately and there is no opportunity to cure the failure to meet this required definition.

When the MOE Assignment Deferral Period ceases or is determined to be unavailable solely because the HECM is eligible to be called Due and Payable for a reason other than the death of the Borrower, the Mortgagee must provide an Eligible Surviving NBS 30 Days to cure the default and reinstate the MOE Assignment Deferral Period as follows:

- all defaults must be cured in fact within the time period permitted; a default is not cured by entering into a Repayment Plan;
- if the default is cured within such time, the MOE Assignment Deferral Period must be reinstated, unless:
  - reinstatement of the MOE Assignment Deferral Period has occurred within the past two years immediately preceding the current notification to the Eligible Surviving NBS that the HECM is Due and Payable;
  - reinstatement of the MOE Assignment Deferral Period will preclude foreclosure if the HECM becomes Due and Payable at a later date; or
  - reinstatement of the MOE Assignment Deferral Period will adversely affect the priority of the HECM lien;
- if the default is not cured within such time, the Mortgagee must proceed in accordance with the established time frames to initiate foreclosure and reasonable diligence in prosecuting foreclosure as required by 24 CFR § 206.125 and all other regulations and requirements if it wishes to perfect its claim for insurance benefits; and
- even after a foreclosure proceeding begins, an Eligible Surviving NBS may cure the condition which resulted in the MOE Assignment Deferral Period ceasing, thus reinstating the HECM and MOE Assignment Deferral Period and allowing the mortgage insurance to remain in effect. The Mortgagee may require the Eligible Surviving NBS to pay any costs that the Mortgagee incurred to reinstate the HECM, including foreclosure costs and reasonable attorney's fees. Such costs may not be added to the HECM balance and must be paid from some other source of funds. Such reinstatement is solely at the election of the Mortgagee.

The Mortgagee may refuse to reinstate the HECM and the MOE Assignment Deferral Period if:

- the Mortgagee has accepted a reinstatement of either the MOE Assignment Deferral Period or HECM within the past two years immediately preceding the current notification to the Eligible Surviving NBS that the HECM is Due and Payable;

- reinstatement of either the MOE Assignment Deferral Period or HECM will preclude foreclosure if the HECM becomes Due and Payable at a later date; or
- reinstatement of either the MOE Assignment Deferral Period or HECM will adversely affect the priority of the HECM lien.

vi. MOE Assignment Claim Payment

A MOE Assignment claim will be calculated and paid in the same manner as a standard assignment claim.

c. COVID-19 HECM Property Charge Repayment Plan (04/29/2024)

i. Eligibility

Mortgagees may provide a Borrower a COVID-19 HECM Property Charge Repayment Plan if the Borrower is delinquent on payment of Property Charges and has been impacted by COVID-19. Borrower attestation, written or verbal, that they have been impacted by COVID-19 is sufficient for documenting that a Borrower has been impacted by COVID-19. The Mortgagee must document the Borrower's attestation in their Servicing File.

ii. Length of Repayment Plan

The maximum length of a COVID-19 HECM Property Charge Repayment Plan is 60 months. This 60-month time period is not reduced by any time that the Borrower utilized a standard HECM Repayment Plan.

iii. Calculating the Repayment Plan

The COVID-19 HECM Property Charge Repayment Plan is calculated using the requirements for a standard HECM Repayment Plan. The Borrower is eligible for a COVID-19 HECM Property Charge Repayment Plan even if they have been unsuccessful on a prior Repayment Plan, the total outstanding arrearage is greater than $5,000, or both. All other requirements with respect to HECM Property Charge Repayment Plans apply to a COVID-19 HECM Property Charge Repayment Plan

iv. COVID-19 HECM Property Charge Repayment Plans and the Homeowner Assistance Fund

If the Borrower will not be able to repay the corporate advances for Property Charge defaults within the permissible time, the Mortgagee may offer a COVID-19 HECM Property Charge Repayment Plan if:

- the Borrower has submitted an application for Homeowner Assistance Funds (HAF) as evidenced by an "A" or "I" code; and
- the actual HAF assistance awarded, or if no HAF assistance is awarded then up to the maximum amount available under the jurisdiction's HAF program (provided HECM is part of the HAF program in that jurisdiction), combined with the

Borrower's ability to repay will result in full repayment of the outstanding corporate advances for Property Charge defaults.

v. Reporting

Mortgagees must submit a Property Charge Loss Mitigation Extension Request in HERMIT and designate the request "COVID-19 Repayment Plan."

vi. Expiration of COVID-19 HECM Property Charge Repayment Plan

Mortgagees may initiate COVID-19 HECM Property Charge Repayment Plans no later than April 10, 2024, one year after the end of the COVID-19 National Emergency. The Property Charge default need not have occurred during the COVID-19 National Emergency.

C. TITLE I INSURED PROGRAMS

This section provides the standards and procedures applicable to the servicing of Loans under the Property Improvement and Manufactured Home Loan programs insured under Title I of the National Housing Act. The Lender must fully comply with all of the following standards and procedures when servicing a Loan insured by the Federal Housing Administration (FHA).

Financial Operations Center

The Financial Operations Center (FOC) provides support for the FHA Title I Property Improvement and Manufactured Home Loan programs. The contact information for the FOC is:

U.S. Department of Housing and Urban Development
Financial Operations Center
52 Corporate Circle
Albany, New York 12203
1-800-669-5152, extension 2832
Title_One_Help@hud.gov

1. Title I Property Improvement Loan Program

Title I FHA-approved Lenders may:

- service the Loans they hold;
- service Title I Loans on behalf of or at the direction of another FHA-approved Lender; or
- utilize services of a servicing agent.

It is not necessary for an agent of the Lender to be approved by FHA to service Title I Loans. However, all Title I Loans must be serviced in accordance with HUD requirements. A Title I Lender holding Title I Loans will remain responsible to HUD for proper collection efforts, even though an agent of the Lender may perform actual loan servicing and collection.

a. Servicing in Compliance with Law (11/07/2023)

i. Definition

The Loan Holder is the Title I Lender who holds title to the FHA insured Loan, has the right to enforce the agreement, is responsible for servicing actions on Loans, including servicing actions performed by its agent.

ii. Standard

Lenders must ensure all Title I FHA-insured Loans are serviced in accordance with FHA requirements and all applicable laws.

Lenders must service all FHA-insured Loans in accordance with FHA requirements and all applicable laws.

Lenders must comply with all laws, rules, and requirements applicable to loan servicing, including full compliance with the applicable requirements under the purview of the CFPB, including RESPA and TILA.

Lenders must comply with all antidiscrimination laws, rules, and nondiscrimination and equal opportunity statutes, regulations, contract provisions, and other requirements applicable to servicing performing FHA-insured Loans and FHA-insured Loans in Default, including full compliance with the applicable requirements of:

- Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the FCRA, 15 U.S.C. §§ 1681a–1681x; and
- the ECOA, 15 U.S.C. §§ 1691a–1691f.

The Lender must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of the Property.

iii. Record Retention – Servicing File

(A) Definition

The Servicing File is the Lender's record of all servicing activity on an FHA-insured Loan.

(B) Standard

Lenders must retain all Servicing Files for a minimum of two years after the transfer or sale of the Loan or termination of Title I Loan insurance. The Lender must maintain accurate records for each Loan serviced. In addition to the specific documentation requirements stated in this Handbook 4000.1, these records must include the following information:

- loan origination and endorsement documentation,
- Title I Insurance payments made; and
- documentation related to any recovery of hazard insurance proceeds.

The Lender must also retain, in electronic and hard copy, the security instrument when applicable, Note, or a lost note affidavit acceptable under state law, with the electronic copy marked "copy."

For cases for which a claim is filed, the Lender must retain documentation in compliance with the Claim File section for at least seven years after the final claim or latest supplemental claim settlement date.

(C) Record Reconciliations

HUD may require Lenders to provide information evidencing reconciliation of Lender records with HUD. This information may include identification, by Loan, of the following:

- amount of insurance premium due and paid to HUD by time period for each insured Loan;
- date insurance was terminated or servicing transferred, if applicable; and
- date servicing was acquired, for Loan acquired after September 1, 1982.

All Lenders must ensure that HUD's records accurately reflect the status of the Loan and both the correct holder and servicer of record.

(D) Electronic Storage

Where retention of a hard copy or original document is not required, Lenders may use electronic storage methods for all servicing-related documents required in accordance with HUD regulations, handbooks, and Title I Letters.

Regardless, the Lender must be able to make available to HUD in the format (electronic or hard copy) requested legible documents within 24 hours of a request or as otherwise prescribed by HUD.

b. General Loan Servicing Requirements (05/09/2022)

The Lender must have adequate facilities for contacting the Borrower in the event of Default and must otherwise exercise diligence in collecting the amount due.

The Lender must have an organized means of identifying, on a monthly basis, the payment status of Delinquent Loans to enable collection personnel to initiate and follow-up on collection activities, and must document its records to reflect its collection activities on Delinquent Loans.

Title I Loan holders are responsible for all servicing actions, including the acts of its agents who perform servicing and collection activities.

i. Title I Loan Sale

(A) Definition

A Loan Sale is a transaction in which a Title I Loan holder sells the Loan to another Title I FHA-approved Lender.

(B) Standard

A Lender may sell, assign, or transfer its Title I Loans, but only to a Lender that has been approved by HUD to participate in the Title I program and has an active Title I contract number.

The selling Lender relinquishes all rights and obligations under the contract for loan insurance on the effective date of the sale. The selling Lender remains responsible for the Loan's annual insurance premiums until notice of the sale is received by HUD.

The purchasing Lender is the Lender that purchases the Loan and thereby succeeds to all rights and obligations of the selling Lender under the contract for loan insurance. As of the effective date of the sale, the purchasing Lender becomes responsible for outstanding annual insurance premiums, regardless of the date of accrual, and must confirm that the details of the loan sale have been reported accurately.

A transfer of Title I Loans between Lenders must be reported to HUD within 31 Days of the effective date of the transfer.

Exception for Sale with Recourse

Reporting is not required if an insured Loan is transferred with a recourse, guarantee, or repurchase agreement.

(C) Required Documentation

The selling or purchasing Title I Lender must report a transfer of Loans by submitting form HUD-27030, *Title I Transfer of Note Report,* to the FOC, Attention: Premiums (Title I Insurance Processing Branch).

HUD will accept the completed form HUD-27030 from either the selling Lender or the purchasing Lender as long as the form contains the signatures of authorized officials from both institutions.

Transfers of Loans for Title I Property Improvement Loans must be submitted separately from Manufactured Home Loans. The two insurance types cannot be submitted on the same form HUD-27030. The Lender must complete a separate form HUD-27030 for each insurance type being reported.

If a large number of Loans are being transferred, a completed form HUD-27030 may be submitted with an attached report or electronic file attachment (such as Excel spreadsheet) that provides the loan level data required by the form.

HUD will hold the selling Lender responsible for all related premium charges and will disburse claim payments only to the selling Lender until an appropriately prepared form HUD-27030 is received and processed.

ii. Earmarking Reserves

HUD may transfer a Loan or group of Loans with earmarking which keeps the insurance coverage separate from other loans owned by the purchasing Lender. In other words, the insurance coverage reserves associated with the Loans being transferred remain in a separate account from any loans already held by the purchaser. Once a Loan is earmarked it remains earmarked even if it is subsequently transferred to another Lender.

iii. Providing Information to HUD

The Lender must respond to verbal or written requests for individual account information, including all servicing information and related data and the entire loan origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the Borrower.

When HUD staff request information, the Lender must make available legible documents in the format (electronic or hard copy) requested within 24 hours of the request or as otherwise permitted by HUD.

iv. Communication with Authorized Third Parties

(A) Definition

Authorized Third Parties are parties who are not Borrowers on the Loan but who are authorized to communicate with Lenders regarding a Loan.

(B) Standard

The Lender must comply with all laws, rules, and requirements applicable to third-party access to loan information, including any requirement to provide loan information and arrange for individual consultation to parties authorized by the Borrowers.

(C) Required Documentation

If communicating with an Authorized Third Party, the Lender must include documentation of the authorization in the servicing binder.

v. Prepayment

(A) Definitions

A Partial Prepayment is a payment of part of the principal amount before the date on which the principal is due.

A Prepayment in Full or Payoff is the payment in whole of the principal amount of the loan Note in advance of expiration of the term of the loan Note.

The Installment Due Date is the first Day of the month, as provided for in the security instrument.

(B) Standard

The Lender must accept a prepayment of a Loan in whole or in part on any Installment Due Date without penalty to the Borrower.

(C) Trustee's Fee for Satisfactions

If specifically provided for in the security instrument, the Lender may charge the Borrower the amount of the trustee's fee, plus any reasonable and customary fee for payment, or for the execution of a satisfaction, release or trustee's deed when the debt is paid in full.

(D) Recording Fees for Satisfactions

The Lender may charge the Borrower a reasonable and customary fee for recording satisfactions in states where recordation is not the responsibility of the Lender.

vi. Insurance Coverage Administration

(A) Hazard Insurance

Lenders may require the Borrower to have hazard insurance. If the Lender requires the Borrower to purchase hazard insurance, the Lender must:

- be named as a "Loss Payee" on the hazard insurance policy; and
- escrow sufficient funds for payment of the renewal premium.

(B) Flood Insurance

(1) Standard

Flood insurance is required for a secured Loan when the Property is located in an SFHA.

Flood insurance must be obtained at any time during the term of the Loan when the Lender determines the secured Property is located in an SFHA.

The Lender must ensure that insurance is in force for the life of the Loan or so long as such coverage remains available, unless the area in which the Property is located is no longer designated as an SFHA. If, due to rezoning, a Property securing an FHA-insured Loan becomes located in an SFHA, the Lender must enforce HUD's flood insurance requirements on coverage amounts and maintenance.

If the Borrower does not maintain flood insurance as required, the Lender must force place the insurance and may pass on the expense to the Borrower. However, the cost of such insurance may not be included in the calculation of HUD's claim payment.

When a Lender obtains title to a home through repossession, the Lender may obtain and maintain flood insurance if the Property is or will be located in an SFHA identified by FEMA until the sale or disposition of the home.

The amount of flood insurance must be no less than the unpaid balance due on the Title I Loan. The Title I Lender must be named as a loss payee.

(2) Required Documentation

The Lender must include in the case binder a copy of the insurance policy showing the amount of coverage and name of the loss payee.

(C) Hazard or Flood Insurance Proceeds

Insurance Claims

The Lender must take necessary steps to ensure that hazard or flood insurance claims are filed and settled as expeditiously as possible.

vii. Annual Insurance Premium and Billing and Remittance

(A) Definition

Annual Insurance Premiums are charges that are remitted to HUD each year of the loan term.

Loan Term, for the purposes of Title I insurance, refers to the term of the insurance coverage, which extends from the Loan's Disbursement to maturity.

(B) Standard

The Lender must pay an insurance premium equal to 1 percent of the loan amount, multiplied by the number of years of the loan term. The 1 percent premium is calculated on the original loan amount rather than the declining loan amount.

All insurance charges are considered earned when paid.

(C) Billing Insurance Premium

HUD will issue a billing statement each month to the Lender through FHAC. The billing statement will show the total amount due to HUD for that period.

(1) Billing Schedule

HUD bills a Lender for the initial installment of the insurance charge on the next monthly billing statement after a Lender reports the Loan for insurance.

If the loan term is 25 months or less, the Lender will receive one billing statement that reflects the entire insurance charge. For all other loan terms, the initial billing statement will reflect the annual premium for the year, plus any applicable penalty or interest for late premium payments.

HUD bills a Lender for the remaining premium installments annually. This billing occurs during the month of the loan disbursement anniversary.

The final annual installment may be adjusted to reconcile with the total insurance charge due.

A premium is not required and HUD will not bill for a period of 14 Days or less after acknowledgment of the loan report in FHAC. A charge for a full month is assessed for a period of more than 14 Days.

If the loan term includes a partial year (e.g., 12 years and 6 months), the annual premium charge for the final partial year is pro-rated based on the number of months remaining (e.g., 0.5 percent for six months). HUD will include the pro-rated annual premium charge for the final partial year with the premium charge billed for the final full year, if the partial year is less than 7 months.

(2) Late Reporting

A Loan that is submitted for insurance after the first anniversary of the Disbursement Date will not be insured until all past due annual premium charges are paid.

(D) Premium Adjustment on Notes Transferred

When Loans are transferred between Lenders and the premium charges on the Loans transferred are already paid, any adjustments related to these charges are to be made between the Lenders, with no involvement by HUD. HUD will bill the purchasing Lender for any unpaid insurance charges after being properly notified of the transfer through the submission of form HUD-27030.

(E) Remittance of Annual Insurance Premium

Lenders must remit the annual insurance premium electronically through Pay.gov. Instructions for accessing Pay.gov can be found in the Title I User Guide, which can be accessed from FHAC under Property Improvement/Manufactured Home.

The first annual premium payment due will be reflected on the billing statement issued the month after the Lender reports the Loan for insurance in FHAC.

(F) Loan Terms Less than or Equal to 25 Months

If a loan term is 25 months or less, the Lender will receive only one billing statement that reflects the entire insurance charge. Lenders must pay the entire insurance charge reflected on the billing statement no later than the 25th Day after the date of the billing statement.

(G) Loan Terms Greater than 25 Months

For loan terms greater than 25 months, the following must occur:

- The first billing statement must reflect the initial annual installment due.
- The insurance premium must be paid in annual installments.
- Payments must be paid by the due date reflected on the billing statement.
- Annual installments are due on the 25th Day after the date of billing by HUD.
- Second and successive installments are due annually.

Lenders must remit the loan insurance premium electronically through Pay.gov.

(H) Penalty Charge and Interest on Late Premium Payments

Insurance premiums not received from the Lender by the due date will be assessed a penalty charge of 4 percent of the amount of the payment.

Insurance premiums received from the Lender more than 30 Days after the due date will also be assessed daily interest at the Treasury Current Value of Funds Rate. However, no penalty charge or daily interest will be assessed if HUD fails to acknowledge receipt of the loan report or fails to bill the Lender for the insurance charges.

(I) Refund or Abatement of Insurance Charges

HUD does not grant any request for an insurance premium refund or abatement for the following reasons:

- The Lender has exhausted its insurance reserve account or is no longer participating in the Title I program.
- The loan reporting occurs after the Loan is paid in full by the Borrower.
- HUD determines that there was fraud or misrepresentation by a Lender in the loan transaction.

Exceptions

A refund or abatement of insurance charges is permitted only when the following events occur:

- If the loan obligation is refinanced into another Title I Loan, HUD will prorate any paid annual installments between the old Loan and the new Loan. HUD will use the date of the refinance to determine the amount pro-rated.
- If the loan obligation is prepaid in full, charged off in accordance with IRS regulations, or Defaulted with an insurance claim, HUD does not bill for annual installments after a Lender informs HUD of these events. There will be no partial refund of insurance charges already paid for that portion of the year occurring after the reporting of such events.
- If a Loan or portion thereof is ineligible for insurance from its inception due to statutory violations, HUD refunds any insurance charges that have been paid on the ineligible portion. HUD refunds the insurance charges only if HUD denies an insurance claim based upon this ineligibility, or if a Lender reports the ineligibility promptly upon discovery and HUD confirms the ineligibility.

If an insurance claim is denied due to ineligibility and a Lender subsequently resubmits the claim with information showing that it was in fact eligible, any refunded amount of the insurance premium plus any accrued insurance charges must be paid by the Lender.

(J) Lender Review of Premium Charges

The Lender is responsible for reviewing each Title I billing statement to be sure that the amount billed is correct. Since each billing statement reflects the current status of Loans as indicated in HUD's records, a billing statement could include annual premium charges for Loans where the charge is no longer due. Examples include Loans that were prepaid in full during the preceding year and Loans where the Lender has submitted an insurance claim to HUD, but the claim is not yet noted in HUD's records.

(1) Reconciling the Billing Statement

The Lender is responsible for reconciling the billing statement with the Lender's records to ensure that the billed amount and the loan activity reflected on the statement are accurate. The Lender should check each billing entry to confirm the Loan's status. If a Loan is no longer active, the Lender may withhold payment (take an "exception") for the premium charge billed for that Loan. The Lender must provide HUD with data on premium charges withheld when processing payment to HUD.

(2) Exception Reporting

The billing statement provided in FHAC allows Lenders to take "exceptions" on Loans where they believe they no longer owe premiums (prepaid, claim submitted, other, etc.).

(3) Exception Reviews

HUD reviews reported exceptions and may request the Lender to supply supporting documentation if deemed necessary to verify the validity of an exception. HUD will update its records as appropriate, including termination of insurance coverage where warranted. HUD will re-bill the Lender for the premium charge if the exception is determined to be invalid.

c. Assumptions (05/09/2022)

i. Conditions for an Assumption

At the option of the Lender, an existing Title I Loan may be assumed, subject to the following conditions:

- a determination by the Lender that the assumptor is eligible;
- a determination by the Lender that the assumptor is an acceptable credit risk based on HUD's underwriting requirements;
- the execution of an assumption agreement that is satisfactory to the Lender and is signed by the assumptor and the original Borrower(s) or previous assumptor(s) at the time of assumption. This agreement must obligate the assumptor for repayment of the Loan so that the original Note is valid and legally enforceable against the assumptor; and
- prior to execution of the assumption agreement, the Lender must provide the assumptor with a Notice to Borrower of HUD's Role and obtain the assumptor's acknowledgment.

The Loan to be assumed may be Delinquent. The security may be transferred to a new eligible Borrower.

ii. Release of Liability

If the conditions above are met, the Lender at its option may release the original Borrower(s) and any intervening assumptor(s) from liability for repayment of the Title I Loan. Approval from HUD is not required. The Lender must retain documentation of the release in the case binder.

iii. No Release of Liability

If a Lender opts not to release the original Borrower(s) and intervening assumptor(s), the Lender must comply with all the servicing requirements as they pertain to the previous Borrowers/assumptors as well as with the current Borrower/assumptor. In particular, the Lender must mail the Notice of Default and Acceleration to previous Borrowers/assumptors. If a Lender does not formally release the original Borrowers/assumptors at the time of the assumption then the Lender must use caution not to inadvertently release them during the servicing and liquidation of the Loan. The requirement that the Lender maintains and assigns to HUD a legally enforceable Note pertains to any Borrower who was not officially released from liability.

iv. Assumption Fee

The Lender may charge up to 1 percent of the unpaid principal balance as a fee for approving the assumptor and preparing the assumption agreement.

v. Reporting an Assumption to HUD

Lenders must report the assumption to the FOC in order to have the current Borrower's name reflected on future insurance charge billing statements. When reporting an assumption, the Lender must supply the FHA case number, the name of the original Borrower and the name(s) and Social Security Number(s) (SSN) of the assumptor(s).

d. Modification of a Current Loan (05/09/2022)

A Lender may enter into a modification agreement with a Borrower without prior permission from HUD on a Loan that is current. A modification agreement:

- requires a written agreement signed by the Borrower;
- need not be recorded;
- may only decrease the interest rate;
- must not advance new funds; and
- does not require any further insurance reporting to HUD, but all documentation of the modification must be submitted if an insurance claim is filed.

e. Loan Default and Loss Mitigation (05/09/2022)

As part of prudent and diligent loan servicing, HUD encourages Lenders to make a reasonable effort to assist delinquent Borrowers in bringing the Loan current prior to accelerating the Loan. For any loss mitigation strategy implemented, the Lender must determine that the Borrower is reasonably able to repay past arrearages and qualify based on the Approvable Qualifying Ratio.

i. Contact with the Borrower

Before taking action to accelerate the maturity of the Loan, the Lender or its agent must contact the Borrower and any co-maker or Co-signer, either in a face-to-face meeting or by telephone, to discuss the reasons for the Default and to seek its cure. If the Borrower and the co-makers or Co-signers cannot be located, will not discuss the Default, or will not agree to its cure, the Lender may proceed to take action. The Lender must document the results of its efforts to contact the Borrower and any co-maker or Co-signer.

ii. Loss Mitigation Tools

HUD encourages loss mitigation to help a delinquent Borrower return the Loan to good standing. The purpose of loss mitigation is to reduce HUD and Lender losses, and preserve insurance reserves. Listed below are the tools available to Lenders and Borrowers that can assist in bringing the Loan current.

(A) Refinance

A Loan that is in Default may be refinanced. There can be no "cash out" to the Borrower. The principal amount of the new Loan may not exceed the lesser of: 1) the cost to the Borrower of prepaying the existing Loan or 2) the original principal balance of the original Loan being refinanced.

(B) Modification Agreement

The Borrower may be considered for a Loan Modification if the Borrower has recently experienced an involuntary reduction in income or an unexpected increase in living expenses, and the Lender determines the Borrower has a reasonable ability to pay under the terms of the loan modification plan to eliminate the arrearage. A Lender may enter into a modification agreement with a Borrower without prior permission from HUD. A modification agreement:

- requires a written agreement signed by the Borrower;
- need not be recorded;
- may increase or decrease the monthly payment amount;
- cannot increase the interest rate or loan term;
- cannot include new funds; and
- does not require any further insurance reporting to HUD, but all documentation of the modification must be submitted if an insurance claim is filed.

(C) Repayment Plan

A repayment plan does not require a Borrower's signed agreement. A Borrower may be eligible for a repayment plan if the Borrower has recently experienced an involuntary reduction in income or an unexpected increase in living expenses, and the Lender determines the Borrower has a reasonable ability to pay under the terms of the repayment plan. A Lender may enter into a repayment plan without HUD's permission.

A repayment plan:

- must be evidenced by a copy of the Lender's letter to the Borrower outlining the terms of the agreement;
- cannot extend beyond six months; and
- does not require any further insurance reporting to HUD.

(D) Partial Payments

(1) Definition

A Partial Payment refers to a payment of any amount less than the full amount due on the Loan at the time the payment is tendered, including Late Charges and

amounts advanced by the Lender on behalf of the Borrower (such as for the payment of taxes).

(2) Standard

The Lender may agree to accept a Partial Payment, thereby assisting a Borrower who is having a temporary problem making their Loan Payment. This practice will usually be advantageous for the Lender and HUD.

Except as outlined below, a Lender must accept any Partial Payment and apply it to the Borrower's account or hold it in a trust account pending disposition. When Partial Payments held for disposition aggregate a full monthly installment, they must be applied to the Borrower's account, thus advancing the date of the oldest unpaid installment.

If the Lender did not agree to accept Partial Payments, it must return a Partial Payment to the Borrower with a letter of explanation if any of the following apply:

- The Loan is not in Default.
- The payment represents less than half of the full amount then due.
- The payment is less than the amount agreed to in a modification agreement or repayment plan.
- The Lender has issued a Notice of Default and Acceleration.
- The Loan has been Delinquent for six months.
- The Loan has been chronically Delinquent (i.e. two or more instances where the account was Delinquent, brought current, and then reverted back to a Delinquent status).

(E) Assumption

If a Borrower cannot afford to continue to make Loan Payments and elects to sell the Property, the Lender may approve an assumption of the Loan.

iii. Notice of Default and Acceleration

The Lender must provide each Borrower with written notice that the Loan is in Default and that the loan maturity is to be accelerated. This notice must be sent when the Loan is at least 30 Days Delinquent but after the Lender has attempted to contact the Borrower.

Exceptions to sending the notice include when the Borrower cures the Default, agrees to a modification agreement or repayment plan, or is in bankruptcy. The notice must be in a font size no smaller than the equivalent of Times New Roman Size 12 for the entire notice.

In addition to complying with applicable state or local notice requirements, the notice must be sent by certified mail and must contain:

- a description of the obligation or security interest held by the Lender;
- a statement of the nature of the Default and of the amount due to the Lender as unpaid principal and earned interest on the Note as of the date 30 Days from the date of the notice;
- a demand upon the Borrower either to cure the Default (by bringing the Loan current or by refinancing the Loan) or to agree to a modification agreement or a repayment plan, no later than the date 30 Days from the date of the notice;
- a statement that if the Borrower fails either to cure the Default or to agree to a modification agreement or a repayment plan by the date accruing 30 Days from the date of the notice, then, as of the date 30 Days from the date of the notice, the maturity of the Loan is accelerated and full payment of all amounts due under the Loan is required; and
- a statement that if the Default persists the Lender will report the Default to an appropriate credit reporting agency:

  This Loan is insured against nonpayment by the federal government. If you do not repay the Loan as agreed, we may assign the debt to the U.S. Department of Housing and Urban Development (HUD) for collection. If your Loan is assigned to HUD, your failure to pay the debt in accordance with the terms set by HUD may result in any or all of the following actions:
  - *seizing your federal income tax refunds, Social Security benefit payments, federal employee wages or retirement, or other federal payments;*
  - *administrative garnishment of your wages if you are not a federal employee (which does not require a judgment and court order to implement);*
  - *referring the debt to the U.S. Department of Justice, U.S. Department of the Treasury, or to private collection agencies; and*
  - *making you liable for penalties and administrative costs that HUD may impose as authorized by Section 3717 to Title 31 of the United States Code (including collection fees charged by the Department of Justice, Department of Treasury or private collection agencies).*

iv. Notice to Credit Reporting Agency

If the loan maturity is accelerated and the Loan is not reinstated, the Lender must report the Default to an appropriate credit reporting agency.

v. Reinstatement of the Loan

The Lender may rescind the acceleration of maturity after full payment is due and reinstate the Loan only if the Borrower brings the Loan current, executes a modification agreement, or agrees to an acceptable repayment plan.

vi. Bankrupt or Deceased Borrower

When a Lender becomes aware that a Borrower has filed bankruptcy or has died, the Lender must take prompt, effective action to protect the Lender's interest as holder of the Loan.

(A) Bankruptcy

The Lender must file a proof of claim with the bankruptcy court, unless the court notifies the Lender that the Borrower has no assets. A proof of claim must be filed even if the Borrower is current on the Title I Loan. The Lender must verify that the proof of claim is filed, on time and without objection, and takes any other steps necessary to protect the Lender's interest as holder of the Note.

If the bankruptcy is closed, the Lender must have evidence of the bankruptcy discharge or dismissal.

Documentation of these steps can be in the form of notices from the bankruptcy court, or other official records such as the Public Access to Court Electronic Records (PACER).

(B) Deceased Borrower

The Lender must confirm the death of a Borrower via a death certificate or other reasonable evidence. The Lender must determine if a probate proceeding exists and document its findings. If there is a probate proceeding, the Lender must file a timely proof of claim.

f. Release or Substitution of Security (05/09/2022)

i. Prior Approval Required

(A) Standard

The Lender must obtain prior approval from HUD to release or substitute any lien securing a Title I insured Loan. Requests for prior approval must be submitted in writing to the FOC.

(B) Required Documentation

The Lender's request for approval of release or substitution must include:

- information regarding what modification to the lien is proposed;
- why the Borrower is seeking to modify the lien;
- how the modification of the lien could benefit the Borrower or help them to avoid hardship;
- the Lender's recommendation; and
- documentation that supports why HUD should approve the request.

(1) Release of Lien for Short Sale

In the case of a Short Sale where the Property is to be sold but the sale proceeds are insufficient to pay all liens in full, the documentation must include:

- copies of the contract of sale;
- an appraisal showing the value of the Property;
- the Title Report for the Property; and
- the proposed Settlement Statement or similar legal document showing how the proceeds will be distributed.

The lien securing the Title I Loan should be treated equitably and the sale must provide for a payment that will result in a significant principal reduction to the Title I Loan. The Title I Loan may be in Default, but the delinquency must not exceed four payments and the payment from the Short Sale must be sufficient to bring the Loan current as well as make a principal reduction.

Unless HUD also approves a release of liability or a Borrower is discharged in bankruptcy, the Note must remain valid and enforceable against all Borrowers. To avoid any confusion or misunderstanding, the Lender must obtain an affidavit from the Borrower(s) that reaffirms their obligation to repay the remaining portion of the Title I Loan. The Lender must be careful to prevent an unintentional release of liability while processing the release of lien. "Paid in Full," "Satisfied in Full," or similar text must not be indicated on the release document, on the promissory note, or in other correspondence from the Lender regarding the release of lien.

(2) Partial Release of Security

In the case of a partial release of security, the documentation must include:

- a legal description of the Property to be released;
- an appraisal showing the value of the Property to be released and of the Property that will continue to secure the lien; and
- information on the consideration received and how the funds will be distributed.

The Lender must apply 100 percent of the consideration to reduce the Title I Loan and/or liens that are senior to the lien securing the Title I Loan.

ii. Substitution of Security

(A) Standard

To be eligible for substitution of the security, the security must not be impaired or reduced in value. The security value provided by the proposed substitution Property must equal or exceed the value of the existing security.

(B) Required Documentation

The submission to the FOC must include:

- current appraisals for both Properties;
- information on the outstanding balances of all liens against both Properties; and
- information regarding ownership.

iii. Subordination of Security

(A) Prior Approval Requirement

Except as provided below, the Lender must request approval from HUD to subordinate the Title I security. The Lender must submit approval requests to the FOC.

Exceptions

The Lender may approve and execute a subordination of security without prior approval from HUD in compliance with the following: the Lender may subordinate the Title I security to Easements that the Borrower may grant to a utility company or in connection with aviation or noise abatement programs; or to correct obvious errors in the recording of the Title I lien or other liens.

Prior approval from HUD is also not required when the following conditions are met:

- In all cases there must not be indications of misuse of the loan proceeds or other noncompliance with HUD's requirements, or other irregularities.
- The scheduled improvements must be completed and a Completion Certificate executed.
- If an inspection was required, the inspection report should confirm that all improvements were completed.
- The Title I Loan must be current.

The Lender may approve a Delinquent Title I Loan if the delinquency is six months or less, and the Loan will be brought current from the proceeds of a refinance of the Borrower's first Mortgage.

(B) Refinancing of a Senior Lien

(1) Standard

(a) Second Lien Position

The Lender may subordinate the Title I security in the case of a refinance of the senior mortgage(s), when the subordination of an existing Title I lien maintains no less than second lien position.

(b) Borrower Benefit

Unless the Loan meets the exception requirements in Cash-Out When Refinancing a Senior Loan, the Borrower must receive a benefit from a refinance of the first mortgage. The Lender may consider the refinance as benefiting the Borrower when any of the following are reduced:

- the remaining amortization period of the existing mortgage;
- the interest rate of the new senior mortgage; or
- the Principal and Interest (P&I) payment, resulting from any reason, including an extension of the loan term or payment to the principal balance.

(c) New First Trust Mortgage Amount

Unless the Loan meets the exception requirements in Cash-Out When Refinancing a Senior Loan, the amount of the new first mortgage must not exceed the outstanding balance of the existing first mortgage balance, plus reasonable closing costs.

(d) Cash-Out When Refinancing a Senior Loan

If the new refinanced mortgage results in cash-out that will be:

- applied to the principal balance of a delinquent Title I Loan that is not more than six months delinquent; or
- used to pay off another lien, which would raise the Title I Loan to a second position;

then, the standards for Borrower Benefit and New First Trust Mortgage Amount are not required.

The Lender must not subordinate the Title I security for a refinance that includes cash-out for payment of other obligations, including, but not limited to:

- unsecured debt;
- loans secured by collateral other than the subject Property;
- loans in junior lien position to the Title I Loan; or
- for any other purpose without prior approval from HUD.

(2) Required Documentation

The Lender must verify and document the following:

- financing type of existing loan and proposed loan;
- next payment due date of the existing loan and determination that the loan is not in default;
- the principal amounts of the original senior loan, its current unpaid balance, and proposed new refinanced loan;

- existing and proposed interest rate;
- existing and proposed monthly P&I payment amount;
- existing monthly escrow payments;
- existing monthly payments with principal, interest, and escrows;
- the term of the existing senior lien and proposed refinanced loan;
- estimated closing costs for the new refinanced mortgage; and
- Title I Loan information, including:
  - date of origination;
  - original loan amount and current principal balance; and
  - next payment due date and any delinquency status.

2. Title I Manufactured Home Loan Program

Title I FHA-approved Lenders may:

- service the Loans they hold;
- service Title I Loans on behalf of or at the direction of another FHA-approved Lender; or
- utilize services of a servicing agent.

It is not necessary for an agent of the Lender to be approved by FHA to service Title I Loans. However, all Title I Loans must be serviced in accordance with HUD requirements. A Title I Lender holding Title I Loans will remain responsible to HUD for proper collection efforts, even though an agent of the Lender may perform actual loan servicing and collection.

a. Servicing in Compliance with Law (11/07/2023)

i. Definition

The Loan Holder is the entity who holds title to the FHA-insured Loan and has the right to enforce the loan agreement.

The Loan Servicer is the entity responsible for performing servicing actions on FHA-insured Loans on its behalf or on behalf of or at the direction of another FHA-approved Lender.

ii. Standard

Lenders must ensure all Title I FHA-insured Loans are serviced in accordance with FHA requirements and all applicable laws.

Lenders must service all FHA-insured Loans in accordance with FHA requirements and all applicable laws.

Lenders must comply with all laws, rules, and requirements applicable to loan servicing, including full compliance with the applicable requirements under the purview of the Consumer Financial Protection Bureau (CFPB), including the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA).

Lenders must comply with all antidiscrimination laws, rules, and nondiscrimination and equal opportunity statutes, regulations, contract provisions, and other requirements applicable to servicing performing FHA-insured Loans and FHA-insured Loans in Default, including full compliance with the applicable requirements of:

- Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), 15 U.S.C. §§ 1681–1681x; and
- the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691–1691f.

The Lender must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of the Property.

b. Loan Servicing Requirements (05/09/2022)

The Lender must have adequate facilities for contacting the Borrower in the event of Default and must otherwise exercise diligence in collecting the amount due.

The Lender must have an organized means of identifying, on a monthly basis, the payment status of Delinquent Loans to enable collection personnel to initiate and follow-up on collection activities, and must document its records to reflect its collection activities on Delinquent Loans.

Title I Loan holders are responsible for all servicing actions, including the acts of its agents that perform servicing and collection activities.

i. Title I Loan Sale

(A) Definition

A Loan Sale is a transaction in which a Title I Loan holder sells the Loan to another Title I FHA-approved Lender.

(B) Standard

A Lender may sell, assign, or transfer its Title I Loans, but only to a Lender that has been approved by HUD to participate in the Title I program and has an active Title I contract number.

The selling Lender relinquishes all rights and obligations under the contract for loan insurance on the effective date of the sale. The selling Lender remains responsible for the Loan's annual insurance premiums until notice of the sale is received by HUD.

The purchasing Lender is the Lender that purchases the Loan and thereby succeeds to all rights and obligations of the selling Lender under the contract for loan insurance. As of the effective date of the sale, the purchasing Lender becomes responsible for

outstanding annual insurance premiums, regardless of the date of accrual, and must confirm that the details of the loan sale have been reported accurately.

A transfer of Title I Loans between Lenders must be reported to HUD within 31 Days of the effective date of the transfer.

Exception for Sale with Recourse

Reporting is not required if an insured Loan is transferred with a recourse, guarantee, or repurchase agreement.

(C) Required Documentation

The selling or purchasing Title I Lender must report a transfer of Loans by submitting form HUD-27030, *Title I Transfer of Note Report*, to the FOC, Attention: Premiums (Title I Insurance Processing) Branch.

HUD will accept the completed form HUD-27030 from either the selling Lender or the purchasing Lender as long as the form contains the signatures of authorized officials from both institutions.

Transfers of Loans for Title I Property Improvement Loans must be submitted separately from Manufactured Home Loans. The two insurance types cannot be submitted on the same form HUD-27030. The Lender must complete a separate form HUD-27030 for each insurance type being reported.

If a large number of Loans are being transferred, a completed form HUD-27030 may be submitted with an attached report or electronic file attachment (such as Excel spreadsheet) that provides the loan level data required by the form.

HUD will hold the selling Lender responsible for all related premium charges and will disburse claim payments only to the selling Lender until an appropriately prepared form HUD-27030 is received and processed.

(D) Earmarking Reserves

HUD may transfer a Loan or group of Loans with earmarking which keeps the insurance coverage separate from other loans owned by the purchasing Lender. In other words, the insurance coverage reserves associated with the Loans being transferred remain in a separate account from any loans already held by the purchaser. Once a Loan is earmarked it remains earmarked even if it is subsequently transferred to another Lender.

ii. Providing Information to HUD

The Lender must respond to verbal or written requests for individual account information, including all servicing information and related data and the entire loan

origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the Borrower.

When HUD staff request information, the Lender must make available legible documents and in the format (electronic or hard copy) requested within 24 hours of the request or as otherwise permitted by HUD.

iii. Communication with Authorized Third Parties

(A) Definition

Authorized Third Parties are parties who are not Borrowers on the Loan but who are authorized to communicate with Lenders regarding a Loan.

(B) Standard

The Lender must comply with all laws, rules, and requirements applicable to third-party access to loan information, including any requirement to provide loan information and arrange for individual consultation to parties authorized by the Borrowers.

(C) Required Documentation

When communicating with an Authorized Third Party, the Lender must include documentation of the authorization in the servicing binder.

iv. Prepayment

(A) Definitions

A Partial Prepayment is a payment of part of the principal amount before the date on which the principal is due.

A Prepayment in Full or Payoff is the payment in whole of the principal amount of the loan Note in advance of expiration of the term of the loan Note.

The Installment Due Date is the first Day of the month, as provided for in the security instrument.

(B) Standard

The Lender must accept a prepayment of a Loan in whole or in part on any Installment Due Date without penalty to the Borrower.

(C) Trustee's Fee for Satisfactions

If specifically provided for in the security instrument, the Lender may charge the Borrower the amount of the trustee's fee, plus any reasonable and customary fees for

payment, or for the execution of a satisfaction, release, or trustee's deed when the debt is paid in full.

(D) Recording Fees for Satisfactions

The Lender may charge the Borrower a reasonable and customary fee for recording satisfactions in states where recordation is not the responsibility of the Lender.

v. Insurance Coverage Administration

(A) Hazard Insurance

Hazard insurance is required for all Manufactured Home Loans. The amount of insurance must be no less than the unpaid balance due on the Title I Loan, or no less than the actual value of the home where state law precludes a higher amount. The Lender must be named as the loss payee.

If a Borrower does not maintain the required hazard insurance, the Lender must obtain the insurance and may pass on the expense to the Borrower. However, the cost of such insurance may not be included in the calculation of HUD's claim payment.

When a Lender obtains title to the home through repossession, the Lender must purchase and maintain sufficient hazard insurance until the sale or final disposition of the home. The cost of such insurance may be included in the calculation of HUD's claim payment.

The Lender assumes the risk for loss of insurance benefits for noncompliance with hazard requirements.

(B) Flood Insurance

(1) Standard

Flood insurance is required if the home site is located in a Special Flood Hazard Area (SFHA) identified by the Federal Emergency Management Agency (FEMA).

Flood insurance must be obtained at any time during the term of the Loan when the Lender determines the secured Property is located in an SFHA.

The Lender must ensure that insurance is in force for the life of the Loan or so long as such coverage remains available, unless the area in which the Property is located is no longer designated as an SFHA. If, due to rezoning, a Property securing an FHA-insured Loan becomes located in an SFHA, the Lender must enforce HUD's flood insurance requirements on coverage amounts and maintenance.

If the Borrower does not maintain flood insurance as required, the Lender must force place the insurance and may pass on the expense to the Borrower. However, the cost of such insurance may not be included in the calculation of HUD's claim payment.

When a Lender obtains title to a home through repossession, the Lender may obtain and maintain flood insurance if the Property is or will be located in an SFHA identified by FEMA until the sale or disposition of the home.

The amount of flood insurance must be no less than the unpaid balance due on the Title I Loan. The Title I Lender must be named as a loss payee.

If the Lender fails to obtain the required flood insurance and an uninsured home is damaged, HUD will adjust its claim payment.

When a Manufactured Home is without flood insurance and has sustained, at any time prior to the sale or disposition of the home, damage that would normally be covered by such insurance, the appraised value for claim calculation purposes will be based on the retail value of comparable homes in undamaged condition without any deduction for such damage.

The cost of such insurance may be included in the calculation of HUD's claim payment.

(2) Required Documentation

The Lender must include in the case binder a copy of the insurance policy showing the amount of coverage and name of the loss payee.

(C) Hazard or Flood Insurance Claims

The Lender must take necessary steps to ensure that hazard or flood insurance claims are filed and settled as expeditiously as possible.

vi. Annual Insurance Premium and Billing and Remittance

(A) Definition

Annual Insurance Premiums are charges that are remitted to HUD each year of the loan term.

Loan Term, for the purposes of Title I insurance, refers to the term of the insurance coverage, which extends from the Loan's Disbursement to maturity.

(B) Standard

The Lender must pay an insurance premium equal to 1 percent of the remaining principal balance, based upon the Loan's scheduled amortization. The annual

premium charge must be paid for the full term of the Loan unless the Loan is prepaid in full or a claim is submitted to HUD.

All insurance charges are considered earned when paid.

(C) Billing Annual Insurance Premium

HUD will issue a billing statement each month to the Lender through FHAC. The billing statement will show the total amount due to HUD for that period.

The billing statement will differentiate Loans originated under the FHA Manufactured Housing Loan Modernization Act of 2008 from Property Improvement and/or Manufactured Home Loans originated under the portfolio loan insurance program and are still covered by the Lender's insurance reserve account.

(1) Billing Schedule

HUD bills the Lender for the initial installment of the insurance charge on the monthly statement at the beginning of the second year of the Loan. The charge will appear on the billing statement for the monthly billing cycle that corresponds to the anniversary of the Loan's Disbursement Date.

HUD bills a Lender for the remaining premium installments annually. This billing occurs during the month of the loan disbursement anniversary.

If the loan term includes a partial year (e.g., 12 years and 6 months), the annual premium charge for the final partial year is pro-rated based on the number of months remaining (e.g., 0.5 percent for six months). HUD will include the pro-rated annual premium charge for the final partial year with the premium charge billed for the final full year, if the partial year is less than 7 months.

This may vary from the number of Borrower payments required to repay the Loan. The loan term varies based on the time between the Disbursement Date and the date of the first payment. When calculating the loan term, HUD does not count partial months of 14 Days or less. HUD counts as a full month any partial month that is more than 14 Days.

(2) Late Endorsement Reporting

A Loan that is reported for endorsement after the first anniversary of the Disbursement Date will not be endorsed until the upfront premium and all past due annual premium charges are paid. The Lender must contact the FOC to confirm the amount due and to make arrangements for payment.

(D) Premium Adjustment on Notes Transferred

When Loans are transferred between Lenders and the premium charges on the Loans transferred are already paid, any adjustments related to these charges are to be made between the Lenders, with no involvement by HUD. HUD will bill the purchasing Lender for any unpaid insurance charges, after being notified of the transfer in compliance with requirements for a Title I Loan Sale.

The Lender or subsequent owner of the Loan is responsible for the payment of all premium charges. If the Lender uses a servicing agent to handle this function, HUD can establish billing for the agent on behalf of the Lender.

(E) Remittance of Annual Insurance Premium

Lenders must remit the annual insurance premium electronically through Pay.gov. Instructions for accessing Pay.gov can be found in the Title I User Guide, which can be accessed from FHAC under Property Improvement/Manufactured Home.

The Lender must remit its annual premium payment within 25 Days from the date of each billing statement. The billing statement will specify the payment due date.

(F) Penalty Charge and Interest on Late Premium Payment

Lenders must pay the insurance premium reflected on their bill on or before the listed Payment Due Date.

The Lender is assessed a penalty charge of 4 percent of the amount of any premium payment not received by HUD by the due date.

Premium payments received from a Lender more than 30 Days after the due date are also assessed daily interest at the Treasury Current Value of Funds Rate. However, a Lender is not required to pay a penalty charge or daily interest if HUD fails to issue a billing statement for annual premium charges in a timely manner.

HUD may accept a late report on a Loan where the Lender certifies that the obligation is not in Default.

(G) Refund or Abatement of Insurance Charges

HUD does not grant any request for an insurance premium refund or abatement for the following reasons:

- The Lender has exhausted its insurance reserve account or is no longer participating in the Title I program.
- The loan reporting occurs after the Loan is paid in full by the Borrower.
- HUD determines that there was fraud or misrepresentation by a Lender in the loan transaction.

Exception

A refund or abatement of insurance charges is permitted only when the following events occur:

- If the loan obligation is refinanced into another Title I Loan, HUD will prorate any paid annual installments between the old Loan and the new Loan. HUD will use the date of the refinance to determine the amount pro-rated.
- If the loan obligation is prepaid in full, charged off in accordance with IRS regulations, or Defaulted with an insurance claim, HUD does not bill for annual installments after a Lender informs HUD of these events. There will be no partial refund of insurance charges already paid for that portion of the year occurring after the reporting of such events.
- If a Loan, or portion thereof, is ineligible for insurance from its inception due to statutory violations, HUD refunds any insurance charges that have been paid on the ineligible portion. HUD refunds the insurance charges only if HUD denies an insurance claim based upon this ineligibility, or if a Lender reports the ineligibility promptly upon discovery and HUD confirms the ineligibility.

If an insurance claim is denied due to ineligibility and a Lender subsequently resubmits the claim with information showing that it was in fact eligible, any refunded amount of the insurance premium plus any accrued insurance charges must be paid by the Lender.

(H) Lender Review of Premium Charges

The Lender is responsible for reviewing each Title I billing statement to be sure that the amount billed is correct. Since each billing statement reflects the current status of Loans as indicated in HUD's records, a billing statement could include annual premium charges for Loans where the premium is no longer due. No premium is due for Loans that were prepaid in full during the preceding year and Loans where the Lender has submitted an insurance claim to HUD, but the claim is not yet noted in HUD's records.

(1) Reconciling the Billing Statement

The Lender is responsible for reconciling the billing statement with the Lender's records to ensure that the billed amount and the loan activity reflected on the statement are accurate. The Lender should check each billing entry to confirm the Loan's status.

(2) Exception Reporting

The billing statement provided in FHAC allows Lenders to take "exceptions" on Loans where they believe they no longer owe premiums (prepaid, claim submitted, other, etc.).

If a Loan is no longer active, the Lender may withhold payment (take an "exception") for the premium charge billed for that Loan. The Lender must report the applicable exception reason for withholding the payment in FHAC.

(3) Exception Reviews

HUD reviews reported exceptions and may request the Lender to supply supporting documentation if deemed necessary to verify the validity of an exception. HUD will update its records as appropriate, including termination of insurance coverage where warranted. HUD will re-bill the Lender for the premium charge if the exception is determined to be invalid.

vii. Reporting Non-compliant Activities

If the Lender discovers fraud, misrepresentation, or substantial noncompliance with program requirements, the Lender must promptly submit a report to HUD.

Examples of non-compliant activities that must be reported include:

- misstatement of fact(s) on the credit application;
- falsified documentation;
- false certifications from Borrowers, Dealers or inspection companies;
- Dealer's failure to submit an executed form HUD-56002-MH, *Placement Certificate for Manufactured Home*;
- Dealer's failure to comply with contractual obligations to the Borrower;
- dealer referral fee or any like charges paid;
- inaccurate or deceptive advertising and/or marketing material; and
- manufacturer's refusal to honor its warranty.

The Lender must prepare a report of noncompliance on the Lender's letterhead. The report must detail the non-compliant activity and must contain the following information to assist in any investigation: borrower name, borrower address, borrower telephone number, loan amount, loan date, inspection date, lender loan number, Title I loan number, loan officer name, dealer name, dealer address, dealer telephone number, and dealer Taxpayer Identification Number (TIN).

The report must be sent to:

Housing Office of Lender Activities and Program Compliance
Attn: Director, Quality Assurance Division
Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

If the Loan has been endorsed for insurance by HUD, the insurance on the Loan will stay in effect. If the non-compliant activity was caused or sanctioned by an employee of a

Lender, HUD may request that the Lender indemnify HUD for any loss sustained, or may impose other sanctions against the Lender.

c. Assumptions (05/09/2022)

i. Conditions

At the option of the Lender, an existing Title I Loan may be assumed, subject to the following conditions:

- a determination by the Lender that the assumptor is eligible;
- a determination by the Lender that the assumptor is an acceptable credit risk based on HUD's underwriting requirements;
- the execution of an assumption agreement that is satisfactory to the Lender and is signed by the assumptor and the original Borrower(s) or previous assumptor(s) at the time of assumption. This agreement must obligate the assumptor for repayment of the Loan so that the original Note is valid and legally enforceable against the assumptor; and
- prior to execution of the assumption agreement, the Lender must provide the assumptor with a Notice to Borrower of HUD's Role and obtain the assumptor's acknowledgment.

ii. Release of Liability

If the conditions above are met, the Lender, at its option, may release the original Borrower(s) and any intervening assumptor(s) from liability for repayment of the Title I Loan. Approval from HUD is not required. The Lender must retain documentation of the release in the case binder.

A Lender must not release the Borrower or any co-maker or Co-signer from liability under the Note without prior approval from HUD. An exception may be possible if there is an assumption.

iii. No Release of Liability

If a Lender opts not to release the original Borrower(s) and intervening assumptor(s), the Lender must comply with the servicing requirements outlined in this section as they pertain to the previous Borrowers/assumptors as well as with the current Borrower/assumptor. In particular, the Lender must mail the Notice of Default and Acceleration to previous Borrowers/assumptors and repossess/foreclose against the security in such a way as to preserve the legal liability of the previous Borrowers/assumptors.

If the Lender does not formally release the original Borrowers/assumptors at the time of the assumption, then the Lender must use caution not to inadvertently release them during the servicing and liquidation of the Loan. The requirement that the Lender maintains and assigns to HUD a legally enforceable Note pertains to any Borrower who was not officially released from liability.

iv. Assumption Fee

The Lender may charge up to 1 percent of the unpaid principal balance as a fee for approving the assumptor and preparing the assumption agreement.

v. Reporting Assumptions

The Lender must report assumptions to HUD in order to have the current Borrower's name reflected on future insurance charge billing statements. An assumption may be reported via mail, fax, or email to the FOC. When reporting an assumption, the Lender must supply the Title I case number, the name of the original Borrower and the name(s) and Social Security Number(s) (SSN) of the assumptor(s).

d. Modification of a Current Loan (05/09/2022)

A Lender may enter into a modification agreement with a Borrower without prior permission from HUD on a Loan that is current. A modification agreement:

- requires a written agreement signed by the Borrower;
- need not be recorded;
- may only decrease the interest rate;
- must not advance new funds; and
- does not require any further insurance reporting to HUD, but all documentation of the modification must be submitted if an insurance claim is filed.

e. Loan Default and Loss Mitigation (05/09/2022)

As part of prudent and diligent loan servicing, HUD encourages Lenders to make a reasonable effort to assist delinquent Borrowers in bringing the Loan current prior to accelerating the Loan and repossessing the Manufactured Home.

i. Contact with the Borrower

Within 17 Days of the missed payment, but before taking action to accelerate the maturity of the Loan, the Lender or its agent must contact the Borrower and any co-maker or Co-signer, either in a face-to-face meeting or by telephone, to discuss the reasons for the Default and to seek its cure. If the Borrower and the co-makers or Co-signers cannot be located, will not discuss the Default, or will not agree to its cure, the Lender may proceed to take action. The Lender must document the results of its efforts to contact the Borrower and any co-maker or Co-signer.

ii. Loss Mitigation Tools

HUD encourages loss mitigation to help a delinquent Borrower return the Loan to good standing. The purpose of loss mitigation is to assist the Borrower to retain the home, to reduce HUD and Lender losses, and to preserve the insurance fund. Listed below are the tools available to Lenders and Borrowers that can assist in bringing the Loan current.

(A) Refinance

A Streamline Refinance may be used for a Loan that is in Default provided that it is not refinanced for an amount greater than the lesser of:

- the original principal balance of the Loan; or
- the current principal balance plus reasonable closing costs and Upfront Mortgage Insurance Premium (UFMIP).

(B) Modification Agreement

A Borrower may be considered for a Loan Modification if the Lender determines the Borrower has the reasonable ability to pay under the terms of the loan modification plan to eliminate the arrearage. A Lender may enter into a modification agreement with a Borrower without prior permission from HUD. A modification agreement:

- requires a written agreement signed by the Borrower;
- need not be recorded;
- may increase or decrease the monthly payment amount;
- cannot increase the interest rate or loan term;
- cannot include new funds; and
- does not require any further insurance reporting to HUD; however, all documentation concerning the modification must be submitted if an insurance claim is filed.

(C) Repayment Plan

Unlike a modification, a repayment plan does not require a Borrower's signed agreement. As with a modification, a Borrower may be considered for a short repayment plan if the Borrower has recently experienced an involuntary reduction in income or an unexpected increase in living expenses and the Lender determines the Borrower has a reasonable ability to pay under the terms of the repayment plan. A Lender may enter into a repayment plan without HUD's permission.

A repayment plan:

- must be evidenced by a copy of the Lender's letter to the Borrower outlining the terms of the agreement;
- may not extend beyond six months; and
- does not require any further insurance reporting to HUD.

When establishing and monitoring a repayment plan, the Lender must ensure that the status of the Loan will not preclude submission of a claim for loss to HUD due to exceeding the deadline for claim submission.

(D) Partial Payments

(1) Definition

A Partial Payment refers to a payment of any amount less than the full amount due on the Loan at the time the payment is tendered, including Late Charges and amounts advanced by the Lender on behalf of the Borrower (such as for the payment of taxes).

(2) Standard

The Lender may agree to accept a Partial Payment, thereby assisting a Borrower who is having a temporary problem making their Loan Payment. This practice will usually be advantageous for the Lender and HUD.

Except as outlined below, a Lender must accept any Partial Payment and apply it to the Borrower's account or hold it in a trust account pending disposition. When Partial Payments held for disposition aggregate a full monthly installment, they must be applied to the Borrower's account, thus advancing the date of the oldest unpaid installment.

If the Lender did not agree to accept Partial Payments, it must return a Partial Payment to the Borrower with a letter of explanation if any of the following apply:

- The Loan is not in Default.
- The payment represents less than half of the full amount then due.
- The payment is less than the amount agreed to in a modification agreement or repayment plan.
- The Lender has issued a Notice of Default and Acceleration.
- The Loan has been Delinquent for six months.
- The Loan has been chronically Delinquent (i.e., two or more instances where the account was Delinquent, brought current, and then reverted back to a Delinquent status).

(E) Assumption

If the Borrower cannot afford to continue to make Loan Payments and elects to sell the home, the Lender may approve an assumption of the Loan.

(F) Short Sale

The Lender may agree to release its lien on the home to facilitate the Borrower's sale of the home to a third party for less than the amount due the Lender. The Lender may still file a claim with HUD regarding the resultant deficiency, provided that the actual sales price is not less than the value of the home as determined by a current HUD-approved appraisal, and provided that the Borrower remains legally liable for the

remaining amount owed on the Loan. A short sale release of lien, with release of liability of the Borrower, requires prior approval from HUD.

iii. Notice of Default and Acceleration

The Lender must provide each Borrower with written notice that the Loan is in Default and that the loan maturity is to be accelerated. This notice must be sent when the Loan is at least 30 Days Delinquent but after the Lender has attempted to contact the Borrower.

Exceptions to sending the notice include when the Borrower agrees to a modification agreement or repayment plan, is in bankruptcy, or has voluntarily surrendered the Manufactured Home.

In addition to complying with applicable state or local notice requirements, the notice must be no smaller than size 12 font Times New Roman, sent by certified mail, and contain:

- a description of the obligation or security interest held by the Lender;
- a statement of the nature of the Default and of the amount due to the Lender as unpaid principal and earned interest on the Note as of the date of the notice;
- a demand upon the Borrower either to cure the Default or to agree to a modification agreement or a repayment plan, no later than 30 Days from the date of the notice;
- a statement that upon the Borrower's failure to comply with the demand, the maturity of the Loan is accelerated and full payment of all amounts due is then required;
- a statement that if the Default persists the Lender will report the Default to an appropriate credit reporting agency; and
- the following statement:

> *This loan is insured against nonpayment by the federal government. If you do not repay the loan as agreed, we may assign the debt to the U.S. Department of Housing and Urban Development (HUD) for collection. If your loan is assigned to HUD, your failure to pay the debt in accordance with the terms set by HUD may result in any or all of the following actions:*
>
> - *Seizing your federal income tax refunds, Social Security benefit payments, federal employee wages or retirement, or other federal payments,*
> - *Administrative garnishment of your wages if you are not a federal employee (which does not require a judgment and court order to implement),*
> - *Referring the debt to the U.S. Department of Justice, U.S. Department of the Treasury, or to private collection agencies,*
> - *Your liability for penalties and administrative costs that HUD may impose as authorized by Section 3717 to Title 31 of the United States Code (including collection fees charged by Justice, Treasury or private collection agencies.)*

iv. Notice to Credit Reporting Agency

If the loan maturity is accelerated and the Loan is not reinstated, the Lender must report the Default to one or more of the national credit reporting agencies.

v. Reinstatement of the Loan

The Lender may rescind the acceleration of maturity and reinstate the Loan only if the Borrower brings the Loan current, executes a modification agreement, or agrees to an acceptable repayment plan.

vi. Bankrupt or Deceased Borrower

When a Lender becomes aware that a Borrower has filed bankruptcy or has died, the Lender must take prompt, effective action to protect the Lender's interest as holder of the Loan.

(A) Bankruptcy

(1) Standard

The Lender must file a timely proof of claim with the bankruptcy court, unless the court notifies the Lender that the Borrower has no assets. A proof of claim must be filed even if the Borrower is current on the Title I Loan. Since the Lender must repossess and sell the Manufactured Home prior to submitting a claim for loss with HUD, the Lender must take all steps necessary to preserve the lien against the home.

If the bankruptcy is closed, the Lender must have evidence of the bankruptcy discharge or dismissal.

In a case where relief from the stay has been granted for the purpose of repossessing the home, the Lender must file a deficiency claim for the unsecured balance no later than 180 Days following filing of the petition to ensure their deficiency claim is not barred.

(2) Required Documentation

The case binder must contain evidence of bankruptcy discharge or dismissal.

(B) Deceased Borrower

The Lender must confirm the death of a Borrower via a death certificate or other reasonable evidence. The Lender must determine if a probate proceeding exists and document its findings. If there is a probate proceeding, the Lender must file a timely proof of claim.

f. Servicing of Manufactured Home Lot Loans and Combination Loans (05/09/2022)

Servicing of Manufactured Home Lot Loans and Combination Loans are subject to the requirements for servicing Manufactured Home Loans with the following exceptions.

Upon acceleration of the maturity on a Defaulted Manufactured Home Lot Loan or Combination Loan, the Lender must proceed against the loan security by foreclosure for Property classified as real estate (i.e., the lot, and if applicable, the Manufactured Home), and repossess any Manufactured Home classified as Personal Property.

Once the Lender obtains the Property through foreclosure and/or repossession if applicable, the Manufactured Home and lot securing a Combination Loan may be sold in a single transaction or separately, without prior approval from HUD.

Claim Submission and Payment

Claim submission and payment for Manufactured Home Lot Loans and Combination Loans are subject to the requirements stated in Title I Claims for Manufactured Homes and Property Disposition of Manufactured Homes. The Lender must submit the claim that includes the sum of the following amounts:

- state or local real estate taxes, pro-rated to the date of disposition;
- lot rents, pro-rated to the date of disposition of the Property;
- municipal water and sewer fees, pro-rated to the date of disposition of the Property;
- liens, pro-rated to the date of disposition of the Property;
- special assessments that are noted on the loan application or become liens after the insurance is issued, pro-rated to the date of disposition of the Property;
- premiums for hazard insurance on the Manufactured Home, pro-rated to the date of disposition of the Property; and
- transfer taxes required by any state or local government.

HUD may reimburse up to 90 percent of the claim submitted for Manufactured Home Lot Loans and Combination Loans.

IV. CLAIMS AND DISPOSITION

A. TITLE II CLAIMS

This section provides the standards and procedures applicable to the submission of claims for all Single Family (one- to four-units) Mortgages insured under Title II of the National Housing Act, except for Home Equity Conversion Mortgages (HECM). The Mortgagee must fully comply with all of the following standards and procedures when submitting a claim for Federal Housing Administration (FHA) mortgage insurance benefits.

1. Claim Submission Process

a. Preparation and Submission of Claims (03/01/2023)

i. Who Can Submit Claims

The holding Mortgagee or the servicing Mortgagee must submit the claim. While authorized parties may prepare or submit the claim on behalf of the Mortgagee, HUD will only pay the claim as stated in Disbursement of Claim.

ii. Liability for Claims Filed

Mortgagees are liable for the contents of any claims filed. By submitting a claim, the Mortgagee certifies that the statements and information contained in the claim are true and correct.

HUD will prosecute false claims and statements and Mortgagees may be subject to criminal and/or civil penalties or other action.

iii. FHA Case Number

The Mortgagee must ensure that the FHA case number is on all Parts of form HUD-27011, *Single Family Application for Insurance Benefits*, and on the cover page of any claims correspondence and documents sent to the Mortgagee Compliance Manager (MCM) and HUD.

iv. Insured Mortgages

The Mortgagee may only submit a claim for a Mortgage that is insured by FHA.

v. Form HUD-27011, *Single Family Application for Insurance Benefits*

The Mortgagee must use form HUD-27011 to submit a claim for insurance benefits. Form HUD-27011 consists of the following five parts. See the *Claim Filing Technical Guide* for detailed information on completing this form.

(A) Part A – Initial Application

The Mortgagee must submit initial case data through Part A for each claim. Part A includes information relating to the Mortgage, Property, property condition, Mortgagee, payment history, and the foreclosure or, if appropriate, the conveyance, assignment, Claims without Conveyance of Title (CWCOT), or Pre-Foreclosure Sale (PFS).

(B) Part B – Fiscal Data

The Mortgagee must submit fiscal data related to allowable expenses and accrued interest through Part B for each claim. Part B provides all summary information relating to receipts and disbursements incurred by the Mortgagee that affect the amount of insurance claim.

For all claims other than conveyance claims, the Mortgagee must submit Part B simultaneously with Part A.

(C) Part C – Support Document

Part C contains itemized information relating to disbursements for the Property Preservation and Protection (P&P). The Mortgagee must list disbursements for P&P expenses in chronological order in the Date Work Completed column and include an accurate description of the work performed on the Property in the Description of Service Performed column. Where applicable, the Mortgagee must prepare this document prior to completion of Part B.

(D) Part D – Support Document (Continuation 1)

Part D contains itemized information relating to such items as taxes, hazard insurance premiums, Mortgage Insurance Premiums (MIP), foreclosure costs, acquisition fees and costs, bankruptcy fees and costs, and other miscellaneous costs. Where applicable, the Mortgagee must prepare this document prior to completion of Part B.

(E) Part E – Support Document (Continuation 2)

Part E contains itemized information relating to closing costs found on the Closing Disclosure and amounts due from and to the buyer at closing. The Mortgagee must prepare Part E in order to claim allowable associated appraisal, administrative, and other closing costs for all claim types.

Where applicable, the Mortgagee must prepare this document prior to completion of Part B.

vi. Methods of Submission of Claims

Mortgagees must use one of the following methods to file claims.

(A) Electronic Data Interchange

(1) Definition

The Electronic Data Interchange (EDI) is the electronic exchange of information between one or more business partners in a structured, machine-processable format that is transmitted directly from computer to computer.

(2) Standard

The Mortgagee may submit claims via EDI for all claims other than Loss Mitigation Home Retention incentive claims and supplemental claims.

(3) Electronic Data Interchange Technical Guidance

The Mortgagee may find information on using EDI in HUD's EDI Implementation Guide.

(4) Application Advice and Error Correction

The Mortgagee may identify errors in their submissions by reviewing Transaction Set (TS) 824. The Mortgagee must take necessary corrective action, including correction or submission of documentation, within 60 Days of the generation of TS 824 to avoid deletion of its EDI claim.

(B) FHA Connection

(1) Definition

FHA Connection (FHAC) is an online system for Mortgagees to access and communicate to HUD origination, servicing, and mortgagee approval and recertification information.

(2) Standard

The Mortgagee may submit claims via FHAC for conveyances, Loss Mitigation Home Retention Option incentives, CWCOT, and PFS claims.

The Mortgagee may not use FHAC for filing Single Family Loan Sale (SFLS) claims, Property located on Indian Land claims, Hawaiian Home Lands claims, and supplemental claims.

The Mortgagee must enter and submit claims individually; the submitted claims will be batched and loaded nightly into the HUD Claims system for processing the next business day.

(3) FHA Connection Technical Guidance

The Mortgagee may find information on using FHAC in HUD's FHA Connection Guide.

(4) Transmission Confirmation

The Mortgagee must include a copy of the Single Family Insurance System (SFIS) Claims Input Result screen in the Claim File. This screen appears when the claim has been successfully transmitted and will show the claim detail and receipt date.

(5) Error Correction

The Mortgagee must review its claim status via FHAC to determine whether a claim has been suspended and in need of correction or documentation. The Mortgagee must take necessary corrective action, including correction or submission of documentation, within 60 Days of the suspension to avoid deletion of its claim submission.

(6) Mortgagee Contact Information

The Mortgagee must include a staff member contact name and phone number in all claims submitted via FHAC. Alternatively, the Mortgagee may enter the name of a department or functional area that can be contacted regarding FHAC submissions.

(C) FHA Catalyst: Claims Module

(1) Definition

FHA Catalyst is an online system for Mortgagees to electronically submit claims.

(2) Standard

HUD provides notice of claim types that Mortgagees may file through FHA Catalyst. The Mortgagee may submit conveyance claims (including DIL), SFLS claims, CWCOT claims, PFS claims, Loss Mitigation Home Retention claims, supplemental claims, Insured Mortgages on Indian Land claims, and Hawaiian Home Lands Mortgages claims, which include information found on form HUD-27011 and any relevant supporting documentation, via FHA Catalyst: Claims Module.

(3) FHA Catalyst Technical Guidance

The Mortgagee may find information on using FHA Catalyst in HUD's guide for the FHA Catalyst: Claims Module.

(4) Application Advice and Error Correction

The Mortgagee may check the status of its claim submission entered in FHA Catalyst: Claims Module through FHAC to determine if it has been denied or requires corrective action.

b. Claim Status (02/16/2021)

Beginning at least two business days after transmission to HUD's Claims system, the Mortgagee may view claim status in FHAC as follows:

- for paid claims, an Advice of Payment letter or Payment Advice will be available;
- for suspended claims, a list of suspended edit codes, with explanations will be available; and
- for deleted claims, a message noting that the claim has been deleted.

All documentation for suspended claims must be submitted via the Suspended Claim Dashboard in P260. At a minimum, the documentation uploaded must include a PDF of the entire form HUD-27011, and support to satisfy the edit based on the edit code description shown in FHAC. Documentation must annotate or highlight claimed expenses that relate to the edit code. Pictures are not required. Once a claim is reviewed, the Mortgagee will be notified of the documentation's approval or rejection via P260 and should monitor P260 accordingly.

Additionally, for claims submitted via EDI, the Mortgagee may review the following Transaction Sets (TS) to determine claim status:

- TS 820 to identify paid claims, and
- TS 824 to identify suspended claims.

c. Claim File (08/19/2024)

i. Standard

For each claim filed, the Mortgagee must maintain evidence of compliance with HUD's servicing requirements. In addition to retaining the documentation required in the Servicing File, the Mortgagee must include the following documentation in its Claim File:

- Default servicing documentation, including:
  - communication with Borrowers and with HUD;
  - required notices;
  - evidence of evaluation under HUD's Loss Mitigation Program, including 90-Day Reviews;
  - documentation evidencing the Mortgagee's compliance with HUD's reasonable diligence requirements;
  - documentation justifying any delays in meeting HUD time frames; and
  - if applicable, documentation relating to compliance with federal or state prohibitions or delays;

- claims and/or conveyance documentation, including:
  - a copy of the first public legal action to initiate foreclosure with the date the action was taken;
  - a copy of the foreclosure deed recorded by the local recording authority with the date of recordation;
  - a copy of the first public legal action to initiate eviction, if applicable;
  - all documentation pertaining to bankruptcy, if applicable;
  - a copy of the deed or assignment with the date of recordation, along with a copy of the transmittal letter, if the deed or assignment was sent to a recording authority;
  - a copy of the Mortgage Insurance Certificate (MIC);
  - a copy of the mortgage Note and modification, if applicable;
  - the title approval letter, if applicable;
  - the title submission certification, for assignments only;
  - evidence showing that the certificate of title to the Manufactured Home is properly retired;
  - invoices and receipts or other documentation of payment made supporting all disbursements for which reimbursement is claimed. Where the Mortgagee made such disbursements in bulk, the documentation must reflect the specific disbursements made for each mortgage;
  - all loan servicing and transaction records (e.g., escrow history, payment history, transaction codes, collection notes, etc.) dated on or after the last complete installment date, as reported in Item 8 of Part A, form HUD-27011;
  - all property inspection reports (e.g., initial, occupied, and vacant);
  - any photographs needed to support P&P expenses and evictions;
  - written responses from HUD's MCM regarding approval of extensions or expenses;
  - documentation to support any extensions in Items 19, 20, and 21 of Part A, form HUD-27011, if applicable;
  - a copy of the buydown and rental agreements;
  - Advice of Payment letters or claims billing statements, if applicable;
  - evidence of hazard insurance coverage and flood insurance coverage, if applicable;
    - the evidence must include the name and address of the insured, the coverage type, coverage limits and deductibles, the covered period, the premium amount, and, if applicable, state-mandated surcharges;
  - documentation supporting the refund or estimated refund of hazard insurance premiums, if applicable;
  - a copy of any appraisals;
  - a copy of the calculation of the Commissioner's Adjusted Fair Market Value (CAFMV);
  - a copy of the wire or canceled check for CWCOT and PFS claims;
  - a copy of the Closing Disclosure, if applicable;
  - for claims involving Reconveyance and reacquisition, evidence that the title or property issue requiring Reconveyance has been corrected; and

- all parts of the claim form, schedules, attachments, and any other supporting documents.

ii. Record Retention Period

The Mortgagee must retain this documentation for at least seven years after the final claim or latest supplemental claim settlement date:

- The final settlement date is the date of the last acknowledgment or payment received by the Mortgagee in response to the submission of a claim. In certain cases, the acknowledgment may be in the form of a bill.
- The supplemental settlement date is the date of the final payment or acknowledgment of such supplemental claim. In certain cases, the acknowledgment may be in the form of a bill.

iii. Electronic Storage

The Mortgagee may use electronic storage methods for all required servicing and claim-related documents where retention of a hard copy or original document is not required.

iv. HUD Requests for Information

The Mortgagee must make available to HUD electronic copies of identified claim files within 24 hours of a request, or as otherwise requested by HUD. HUD may charge a fee for the review of a Claim File that is not provided to HUD when requested.

v. Missing Claim Files

If the Mortgagee is unable to produce the Claim File at HUD's request during the record retention period, HUD may consider all amounts for expenses and interest to have been paid in error.

2. Claim Types

Mortgagees may submit the following claim types for Single Family forward Mortgages.

a. Claim Type 01 – Conveyances (04/29/2026)

The Mortgagee may submit a claim after conveyance of a Property to HUD through foreclosure or by Deed-in-Lieu (DIL) of Foreclosure under Claim Type 01.

i. Computation of Interest

(A) Calculating Debenture Interest

(1) Debenture Interest Rates

(a) Mortgages Endorsed for FHA Insurance after January 23, 2004

For Mortgages that were endorsed after January 23, 2004, and are not Direct Endorsements, the Mortgagee must calculate debenture interest as the monthly average yield for the month in which the Default on the Mortgage occurred, on United States Treasury Securities adjusted to a constant maturity of 10 years.

(b) Mortgages Endorsed for FHA Insurance on or before January 23, 2004

For Mortgages that were insured on or before January 23, 2004, and were not Direct Endorsements, the Mortgagee must calculate the debenture interest rate as the higher of the rates in effect on:

- the date the Mortgage was endorsed for insurance; or
- the date of *Firm Commitment*.

(c) Direct Endorsements and Coinsurance Programs

(i) Mortgages Endorsed for FHA Insurance after January 23, 2004

For applications involving Mortgages originated under the Single Family Direct Endorsement Program and endorsed for FHA insurance after January 23, 2004, the Mortgagee must calculate the debenture interest rate as the monthly average yield for the month in which the Default on the Mortgage occurred, on United States Treasury Securities adjusted to a constant maturity of 10 years.

(ii) Mortgages Insured on or before January 23, 2004

For Direct Endorsement Mortgages insured on or prior to January 23, 2004, the Mortgagee must calculate debenture interest as the rate in effect on the date the Mortgage was endorsed for insurance.

(2) Time Frames for Debenture Interest

(a) Interest up to Date of Claim Settlement

(i) Definition

The Date of Initial Claim Settlement is the date that HUD approves the settlement of Part A of form HUD-27011 for payment.

The Date of Final Claim Settlement is the date that HUD approves the settlement of Part B of form HUD-27011 for payment.

(ii) Standard

Part A

Provided that the Mortgagee has met all time requirements, HUD will pay debenture interest on the unpaid principal balance from the date of Default to the date of initial claim settlement.

Part B

HUD will compute interest on expenditures from the date of the submission of Part B to the date of the final claim settlement.

(b) Interest up to Disbursement Date

(i) Definition

The Disbursement Date, as applicable to claims, is the date the Mortgagee paid for an expense.

(ii) Standard

For each Disbursement itemized on Parts C, D and E, the Mortgagee must compute the debenture interest from the latter of the Disbursement Date or date of Default, to the earliest of the following dates:

- Part A's date of interest curtailment;
- the date Part B is prepared; or
- Part B's date of interest curtailment.

(iii) Required Documentation

The Mortgagee must enter in Item 204 (Part C) and Item 304 (Part D) the date to which interest is calculated for expenditures claimed on form HUD-27011, Part B. This will be the same date as entered in Item 104, Part B, provided no time requirement or approved extension has been missed.

(B) Calculating Interest for an Expenditure Using Daily Interest Rate Factors

(1) Definition

The Daily Interest Rate Factor is the annual interest rate expressed as a decimal, divided by 365 (or 366 in leap years), and rounded to the fourth place to the right of the decimal, for the purpose of calculating interest on claimed expenditures.

(2) Standard

The Mortgagee must calculate the amount of interest to be claimed for an expenditure as follows:

- identify the effective debenture interest rate based on the endorsement date of the mortgage for mortgages endorsed before January 23, 2004, or the date of Default for mortgages endorsed on or after January 23, 2004;
- find the Daily Interest Rate Factor (see Appendix 8.c Daily Interest Rate Factor in the *Claim Filing Technical Guide*) corresponding to the effective debenture interest rate;
- multiply the Daily Interest Rate Factor by the amount paid; then
- multiply this result by the number of Days (see Appendix 8.b Julian Calendar in the *Claim Filing Technical Guide*) from the date paid (or Default date, if later) for each line Item to the earlier of:
  - the date in Item 104 (submission date for Part B); or
  - the date of the earliest time requirement missed (Items 204 and 304).

(3) Interest for Expenditures before the Date of Default

(a) Standard

If the Mortgagee makes an expenditure or advance before the date of Default, the Mortgagee may only calculate debenture interest from the date of Default.

HUD will not pay debenture interest on expenses prior to the date of Default.

(b) Required Documentation

When filing the claim, the Mortgagee must:

- enter the date of Default in the "Date Paid" column of Parts C, D, and E; and
- place the actual date paid in parentheses, following the description of the expenditure or advance.

(C) Calculating Interest for Default after Special Forbearance-Unemployment or Special Forbearance

(1) Standard

(a) Time Frame for Mortgage Note Interest

When the Mortgagee files a claim for insurance benefits after a Default under a Special Forbearance (SFB) - Unemployment Agreement or Special Forbearance agreement, HUD will pay mortgage note interest for the period beginning on the due date of the last completely paid installment, up to the earliest of the following dates:

- date of initiation of foreclosure proceedings;
- date of acquisition of title and possession by DIL of Foreclosure;
- date the Property was acquired by the Commissioner under a direct conveyance from the Borrower; or
- 90 Days after the date of the Default of the SFB-Unemployment Agreement or Special Forbearance Agreement; or such other date as HUD may approve in writing prior to expiration of this 90-Day period.

(b) Calculating Mortgage Note Interest Using Daily Interest Rate Factors

To obtain the amount of accrued mortgage interest due, the Mortgagee must:

- multiply the Daily Interest Rate Factor (see Appendix 8.c Daily Interest Rate Factor in the *Claim Filing Technical Guide*) by the amount of the unpaid principal balance; and
- multiply the result by the number of days from the due date of the last completely paid installment to the date selected above as the "ending date."

(c) Time Frame for Debenture Interest

When the Mortgagee files a claim for insurance benefits after a Default under an SFB-Unemployment Agreement or SFB Agreement, HUD will pay debenture interest for the period beginning on the earliest of the following dates:

- the date of initiation of foreclosure proceedings;
- the date of acquisition of title and possession by DIL of Foreclosure;
- the date the Property was acquired by the Commissioner under a direct conveyance from the Borrowers; or
- 90 Days after the date of the Default of the SFB-Unemployment Agreement or SFB Agreement, or other such date as HUD may approve in writing prior to expiration of this 90-Day period.

This debenture interest period ends on the date of the initial claim payment or the date of interest curtailment.

(d) Calculating Debenture Interest

HUD will compute the debenture interest at the time of payment of Part B, using the rate in effect at the time of the mortgage Default. Where "Mortgage Note Interest" is claimed on Part B because of an SFB-Unemployment Agreement or SFB Agreement, HUD will subtract from the claim any debenture interest already paid for the same period.

(2) Interest on Claim Form

The Mortgagee must reflect the use of an SFB-Unemployment Agreement or SFB Agreement by entering the following in Item 121:

- From: Enter the date of the last completely paid installment after all funds received under the Agreement are applied according to the terms of the Mortgage (Item 8, part A). If no Mortgage Payments were made, enter a date 30 Days before the due date of the first scheduled payment (Item 7, Part A).
- To: Enter the earliest of the following dates:
  - the date of initiation of foreclosure proceedings;
  - the date of acquisition of title and possession by DIL of Foreclosure;
  - the date the Property was acquired by the Commissioner under a direct conveyance from the Borrower; or
  - 90 Days, or such other time as approved by the MCM, following the date of the Borrower's SFB-Unemployment Agreement or SFB Agreement failure.
- Rate: Enter the mortgage interest rate as it appears on the mortgage Note.
- Column C: Enter the amount of mortgage interest due.

(3) Required Documentation

The Mortgagee must send to HUD with Part B of form HUD-27011 a copy of the:

- executed SFB-Unemployment Agreement or SFB Agreement; and
- the payment history.

The Mortgagee must retain copies of these documents in the Claim File.

(D) Curtailment of Interest

(1) Definition

Curtailment of Interest is the cutoff of the accrued interest calculation as of the date on which the Mortgagee fails to take a required action.

The Date of Interest Curtailment is the date that the Mortgagee first failed to take a required action.

(2) Standard

The Mortgagee must self-curtail interest on Single Family claims when it fails to meet HUD's foreclosure, reasonable diligence, or reporting time frame requirements as of the date on which the required action should have been taken.

If more than one time requirement is missed and there are no applicable extensions, the Mortgagee must calculate the interest to the earliest missed time requirement.

(a) Failure to Timely Initiate Foreclosure

The Mortgagee must curtail interest if it fails to meet the time requirement, including applicable extensions, to initiate foreclosure, regardless of whether later payments advanced the date of Default.

(b) Failure to Give HUD Notice of Foreclosure

The Mortgagee must curtail interest if it fails to meet the time requirement to give notice to HUD of the foreclosure via SFDMS. Until the Mortgagee properly reports the foreclosure initiation, the Mortgagee must reduce its claim by an amount equivalent to 30 Days of interest for each SFDMS reporting cycle missed.

(c) Failure to Meet Reasonable Diligence Time Frames

The Mortgagee must curtail interest if it fails to meet HUD's Reasonable Diligence Time Frames, including applicable extensions, in:

- completing foreclosure;
- acquiring good marketable title to and possession of the Property; and
- if applicable, starting eviction or possessory action.

(d) Failure to Meet Time Frame to Convey to HUD

The Mortgagee must curtail interest if it fails to meet HUD's time frame in conveying the Property to HUD.

(3) Required Documentation

The Mortgagee must indicate the interest curtailment date on form HUD-27011, as follows:

- In Part A, the Mortgagee must enter the curtailment date in Item 31, ensuring that this date is before the date in Item 9. The Mortgagee must indicate in the "Mortgagee's comments" section the reason for the curtailment.

- When a curtailment date is entered in Item 204 Part C and 304 Part D, the Mortgagee must indicate in the "Mortgagee's comments" section of Part B the reason for the curtailment.

The Mortgagee must retain copies of any approved extensions received from HUD in the Claim File.

(4) Remittance of Claim Payments for Failure to Self-Curtail

If a Mortgagee determines during its Quality Control (QC) review that it failed to self-curtail when submitting the claim, the Mortgagee must remit claim-related payments to HUD through the Claim Remittance feature in FHAC. For more information on remitting payments, see the Quick Start: Single Family Servicing Claims Processing guide.

ii. Computation of Claim Amount

The Mortgagee may claim up to 100 percent of the unpaid principal balance, plus allowable costs and debenture interest.

(A) Damage to Conveyed Properties

(1) Definition

Surchargeable Damage is damage to a Property caused by fire, flood, earthquake, hurricane, tornado, boiler explosion (for condominiums only), or Mortgagee Neglect.

Mortgagee Neglect is the Mortgagee's failure to take action to preserve and protect the Property from the time it is determined (or should have been determined) to be vacant or abandoned, until the time it is conveyed to HUD.

Non-Surchargeable Damage is damage to a Property that is not Surchargeable Damage.

(2) Standard

(a) HUD-Required Repairs of Damage to the Property

In cases of Surchargeable Damage, HUD may require the Mortgagee to repair a Property before conveyance, and the Mortgagee may not request reimbursement for such repairs.

In cases of Non-Surchargeable Damage that occurred during the time of the Mortgagee's possession, HUD may require the Mortgagee to repair such damage before conveyance, and HUD will reimburse the Mortgagee for

reasonable payments not in excess of the Secretary's estimate of the cost of repair, less any insurance recovery.

(b) Conveyance of Property with Surchargeable Damage

Where HUD has authorized the Mortgagee to convey a damaged Property unrepaired, HUD will deduct from the mortgage insurance benefits the greater of:

- any insurance recovery received by the Mortgagee; or
- HUD's estimate of the cost to repair the Property.

(c) Estimating the Recovery Amount

If the Mortgagee has not received the hazard insurance proceeds by the time of the Part A claim submission, the Mortgagee may estimate the recovery.

(d) Adjustment of Recovery Amount

If the actual recovery amount is less than the amount estimated, the Mortgagee may request reimbursement of the difference between the amount of proceeds expected and the proceeds received if both are greater than HUD's estimate of damage.

The Mortgagee is not entitled to a reimbursement if it would reduce the deduction in insurance benefits to less than HUD's estimate of damage.

(e) Mortgagee Certification for Properties Damaged by Fire

***(i)* Definition**

The Mortgagee Certification for Properties Damaged by Fire is a certification prepared by the Mortgagee in order to convey to HUD certain eligible Properties damaged by fire.

***(ii)* Standard**

When the Mortgagee meets all regulatory requirements for conveying a Property damaged by fire that was not covered by fire insurance at the time of the damage, or the amount of insurance coverage was inadequate to fully repair the damage, the Mortgagee must include a Mortgagee Certification at the time that a claim is filed to limit the deduction from insurance benefits to the amount of insurance recovery received by the Mortgagee, if any.

The Mortgagee Certification must include the following statements:

- at the time the Mortgage was insured, the Property was covered by fire insurance in an amount at least equal to the lesser of 100

percent of the insurable value of the improvements, or the principal balance of the Mortgage;

- the insurer later canceled this coverage or refused to renew it for reasons other than nonpayment of premium;
- the Mortgagee made diligent efforts within 30 Days of any cancellation or non-renewal of Hazard Insurance, and at least annually thereafter, to secure other coverage or coverage under a Fair Access to Insurance Requirements (FAIR) Plan, in an amount at least equal to the lesser of 100 percent of the insurable value of the improvements, or the principal balance of the Mortgage, or if coverage to such an extent was unavailable at a reasonable rate (as defined in 24 CFR § 230.379(a)(4)(i)), the greatest extent of coverage that was available at a reasonable rate;
- the extent of coverage obtained by the Mortgagee was the greatest available at a reasonable rate, or if the Mortgagee was unable to obtain insurance, none was available at a reasonable rate; and
- the Mortgagee performed all required Property P&P actions.

***(iii)*Required Documentation**

The Mortgagee must upload into P260 a copy of the Mortgagee Certification and must retain a copy in the Claim File.

(f) Conveyance without Approval of Property with Unrepaired Surchargeable Damage

If a Mortgagee conveys a damaged Property to HUD without prior notice or approval, the MCM will notify the Mortgagee in writing of its Finding. Depending on the extent of the damage and the MCM's Finding, HUD may reconvey the Property and require reimbursement for all expenses incurred in connection with such acquisition and Reconveyance, or deduct from the mortgage insurance benefits the greater of HUD's estimate of the cost of repair or any insurance recovery.

(3) Required Documentation

The Mortgagee must document all Surchargeable Damage and Non-Surchargeable Damage to the Property on the claim form as follows:

- for Surchargeable Damage, mark "Yes" in Item 24, complete Items 26 and 27, and identify the damage in the "Mortgagee's comments" section;
- for Non-Surchargeable Damage, mark "No" in Item 24, identifying the damage in the "Mortgagee's comments" section; and
- include amounts of hazard insurance recovery received in Line 118 or, if adjusting the amount based on a Part A estimate, in Line 119.

(4) Failure to Indicate Damage on the Claim Form

If the Property is conveyed damaged but is not identified as damaged on form HUD-27011, HUD will make no further reimbursement until the MCM has evaluated the Mortgagee's responsibility for the damage.

(B) Funds Held by the Mortgagee

(1) Standard

HUD deducts from the mortgage insurance benefits those funds that are retained by the Mortgagee.

(2) Required Documentation

The Mortgagee must report these held funds as follows:

- Unapplied Section 235 Assistance Payments - Item 123, Part B, Column A.
- Funds Held Pursuant to a Buydown Agreement - Item 109, Part B, Column A.
- Rental Income - Item 115, Part B, Column A.
- Hazard Insurance Recovery - Item 118, Part B, Column A, if not reported on Part A.
- Hazard Insurance Recovery - Item 27, Part A, and Item 119, Part B, column A if the entry in Part A is an estimate.
- All other funds - Identify the nature and the amount of the funds and enter in Item 109, Part B, Column A.

(C) Escrow Funds

(1) Funds Remaining in Escrow Account

(a) Standard

The Mortgagee must report on the claim form those funds remaining in the escrow account on the date the deed is filed for record.

(b) Required Documentation

The Mortgagee must enter amounts for funds remaining in the escrow account in Item 109, Part B as follows:

- The Mortgagee must include in Item 109 any funds received on the Mortgage that have not been applied to reduce the indebtedness, such as Partial Payments, hazard insurance refunds, estimated hazard insurance refunds, buydown funds, and funds held in escrow for on-site repairs.

- For payment of expenses for which funds are escrowed, the Mortgagee must charge those payments to the escrow account until the escrow account balance equals zero.
- The Mortgagee must not enter a negative balance in Item 109 and must not enter amounts for escrow advances in Items 305 or 311.

The Mortgagee must include in the "Mortgagee's comments" section an explanation of the funds included in Item 109.

(2) Mortgagee Advances for Escrow Expenditures

(a) Standard

The Mortgagee may claim reimbursement advances for escrow expenditures. There must be no remaining funds in the escrow account.

The Mortgagee must calculate interest on advances from the Disbursement Date to the earliest of the following dates:

- the earliest missed time frame; or
- the date the claim is prepared.

(b) Required Documentation

The Mortgagee must enter any advances for escrow expenditures in Items 305 or 311, as appropriate. The Mortgagee must not charge these advances to Item 109.

When the first occurrence of an expense results in a negative balance to escrow, the Mortgagee must enter this amount in Item 305 or 311, whichever is appropriate.

(D) Property Preservation and Protection Costs

(1) Definitions

P&P Actions are maintenance, security, and repair work required by HUD to ensure the Property meets HUD's conveyance condition standards.

P&P Costs do not include real estate taxes and hazard insurance premiums.

The P&P Period begins on the date of commencement of the Reasonable Diligence Time Frame and continues until the end of the date established based on the aggregate calculation of the total number of days in the Reasonable Diligence Time Frame and the Conveyance Time Frame or CWCOT time frame.

(2) Standard

HUD will reimburse Mortgagees up to the Maximum Property Preservation Allowance in Appendix 7.0 – Property Preservation Allowances and Schedules, or as permitted by HUD as approved over-allowables, for Property P&P actions so long as:

- the actions are performed prior to or during the P&P period, even if the Mortgagee renders payment after conveyance; and
- the actions are performed in accordance with HUD guidance.

The Mortgagee may not request reimbursement for any costs related to obtaining bids for P&P actions.

(a) Photographs

The Mortgagee may request a flat fee reimbursement for photographs, regardless of the number of pictures required.

(b) Inspections

The Mortgagee may request reimbursement for costs for:

- up to 13 inspections per calendar year per Property, with one inspection performed for each 25-35-Day cycle in accordance with HUD guidance and with additional protective measures supported by documentation;
- Pre-Conveyance Inspections that do not coincide with the regular inspection schedule; and
- additional inspections as otherwise required by HUD.

(c) Debris Removal

(i) Standard

HUD will reimburse the Mortgagee for debris removal amounts up to the maximum amount in the P&P Cost schedule and up to amounts authorized by the MCM.

(ii) Required Documentation

The Mortgagee must retain in the Claim File:

- before and after photographs reflecting the debris removal and including the date and property address; and
- salvage and dumping fee receipts or other documentation stating the date, property address, number of cubic yards dumped, and number and type of appliances disposed of.

(3) Reasonable Payments for Property Preservation and Protection Costs

(a) Standard

Mortgagee payments for P&P costs are considered reasonable if they are incurred prior to or during the P&P period, are otherwise reimbursable, and meet the allowances and schedules in Appendix 7.0 – Property Preservation Allowances and Schedules. The Mortgagee may only include reasonable payments for P&P costs in its claim.

The Mortgagee must calculate the P&P period by adding the number of Days in the Reasonable Diligence Time Frame and the Conveyance Time Frame or CWCOT time frame.

The Reasonable Diligence Time Frame starts on the earlier of:

- the date the first legal action should have been filed; or
- the actual date the first legal action was taken.

(b) Calculation of Preservation and Protection Period

Reasonable Diligence Time Frame	Conveyance or CWCOT Time Frame Days	Total Days in P&P Period
See Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames (plus approved extension period, if applicable)	30 Days (plus approved extension period, if applicable)	Reasonable Diligence Time Frame plus conveyance or CWCOT time frame Days

Mortgagees must not claim P&P costs incurred after the P&P period for reimbursement.

(4) Required Documentation

The Mortgagee must retain in the Claim File documentation supporting all property preservation expenses claimed by the Mortgagee.

Where the Mortgagee was instructed by HUD to perform a specific service after the date of conveyance, the Mortgagee must include in the "Mortgagee's comments" section of form HUD-27011 notation of the request and a list of expenses associated with completing the request.

Mortgagees must only include reasonable P&P payments on form HUD-27011, Part C, for reimbursement.

The Mortgagee must retain copies of any approved extensions received from HUD in the Claim File.

(5) Review of Preservation and Protection Expenses

(a) HUD Review

HUD's MCM will evaluate all claimed costs for P&P. HUD will require the Mortgagee to repay these costs if HUD determines that:

- amounts paid for reimbursement were unnecessary, excessive, or unsupported; or
- services claimed were not performed or were not performed in accordance with HUD guidance.

(b) Mortgagee Determination

If the Mortgagee determines any P&P costs have been incorrectly filed for reimbursement, the Mortgagee must reimburse HUD as a Claim Remittance in FHAC.

(E) Homeowners' Association/Condominium Assessments and Fees

(1) Standard

The Mortgagee may claim reimbursement for:

- Homeowners' Association (HOA)/Condominium Fees due within 30 Days after the date of conveyance to HUD and paid by the Mortgagee before conveyance;
- penalties, interest, and/or late fees incurred by the former Borrower and paid by the Mortgagee; and
- the fees and assessments amounts listed below.

(a) Where HOA/Condominium Fees Survived Foreclosure

(i) Fees Not Included in Foreclosure

Where HOA/Condominium Fees were not included in the foreclosure proceedings and these fees survive foreclosure, the Mortgagee may claim reimbursement for the negotiated amount required to obtain a release of outstanding HOA/Condominium Fees.

HUD will only reimburse the Mortgagee for payment of assessments that were incurred from the foreclosure sale date to the date of conveyance.

(ii) Fees Were Included in Foreclosure and Property Is in State Where HOA/Condominium Liens Can Take Priority

When the Property is located in a state in which HOA/condominium liens can take priority over HUD's first lien and these fees were included in the foreclosure and survived foreclosure, the Mortgagee may claim reimbursement for the negotiated amount required to obtain a release of outstanding HOA/Condominium Fees.

HUD will only reimburse Mortgagees for HOA Fees up to the total value of the periodic HOA/Condominium Assessments due and paid from the date the Borrower defaulted on their HOA/Condominium Assessment to the date of conveyance.

(b) Where There Is an HOA/Condominium Lien That Survives Foreclosure

When the Property is not located in a state in which HOA/Condominium Fees can take priority over HUD's first lien, the fees were included in the foreclosure, and there is a lien on the Property that survives foreclosure, the Mortgagee may claim reimbursement for the negotiated amount required to obtain a release of outstanding HOA/Condominium Fees.

HUD will only reimburse Mortgagees for HOA Fees up to the state law mandated amount.

(c) Where HOA/Condominium Fees Do Not Survive Foreclosure or Create a Lien

Where HOA/Condominium Fees will not survive foreclosure or create a lien surviving foreclosure, the Mortgagee may claim reimbursement for the HOA/Condominium Assessment amounts required under applicable law.

(2) Required Documentation

After resolving HOA/Condominium Fee amounts, the Mortgagee must perform the following in P260:

- no later than 15 Days after conveyance, upload into P260 the paid HOA/condominium invoice and any documentation necessary to verify that the Mortgagee made such payments prior to conveyance; and
- document in P260 any common area requirements associated with gaining access to the Property.

The Mortgagee must also reflect the amounts on form HUD-27011 as follows:

- enter HOA/condominium amounts in Item 111 of Part B and Item 305 on Part D; and

- document the payment of all final bills and liens for HOA/Condominium Fees in the "Mortgagee's comments" section of Part C.

(F) Hazard and Flood Insurance Premiums

HUD will reimburse the Mortgagee for hazard insurance premiums and flood insurance premiums paid to protect the Mortgagee's interest up until the date the deed to the Secretary is filed for record, so long as the hazard insurance and flood insurance premiums were paid in accordance with HUD guidance.

If the Mortgagee force-places a Private Flood Insurance (PFI) policy to satisfy the mandatory Flood Insurance purchase requirement, the PFI must meet the requirements for Flood Insurance.

(1) Calculating the Hazard and Flood Insurance Premium Refund

If the amount of the actual premium refund is not known at the time Part B of form HUD-27011 is prepared, the Mortgagee must calculate an estimate on a "short rate" basis as follows:

- determine the number of Days the policy was in effect, from the effective date of the policy to the earlier of the cancellation date or the date the deed to the Secretary was filed for record (see Appendix 8.b Julian Date Calendar of the *Claim Filing Technical Guide*);
- use the Short Rate Method Table in Appendix 8.a of the *Claim Filing Technical Guide* to determine the percentage of the premium utilized, and subtract this figure from 100 to determine the percentage of premium remaining; and
- multiply the percentage of premium remaining by the total premium to determine the estimated amount of the premium refund.

(a) Actual Hazard and Flood Insurance Premium Refund More than Estimated Refund

If the actual premium return is $10 or more than the Mortgagee's estimated amount, the Mortgagee must file a supplemental remittance.

(b) Actual Hazard and Flood Insurance Premium Less than Estimated Refund

If the actual premium return is less than the Mortgagee's estimated refund, the Mortgagee may request a refund by:

- filing a supplemental claim form; and
- providing a copy of the insurance carrier's statement of the return premium.

(2) Required Documentation

The Mortgagee must include the refund amount or estimated refund amount in Item 109, Part B of form HUD-27011, and include in the "Mortgagee's comments" section the amount and whether this amount is actual or estimated.

(3) Claims without Estimated Hazard Insurance and Flood Insurance Premium Refunds or Where No Refund Was Received

The Mortgagee may submit a Part B claim without an estimated hazard or flood insurance premium refund, provided the Mortgagee includes documentation to HUD demonstrating:

- that the insurer remitted the refund to the Borrower; or
- that the insurer has a policy of not remitting funds to the Mortgagee in that jurisdiction.

If the Mortgagee submits a Part B claim with an estimated hazard or flood insurance premium refund, but the refund was not received, the Mortgagee may submit a supplemental claim for reimbursement of the estimated hazard or flood insurance premium refund entered on line 109 of the Part B claim, provided the Mortgagee includes documentation to HUD demonstrating:

- that the insurer remitted the refund to the Borrower; or
- that the insurer has a policy of not remitting funds to the Mortgagee in that jurisdiction.

(G) Utility Bills

The Mortgagee may request reimbursement for final utility bills by itemizing them in Item 305 of Part D of form HUD-27011.

(H) Eviction and Other Possessory Action Costs

(1) Definition

Eviction and Other Possessory Action Costs are those costs associated with gaining possession of an occupied Property.

(2) Standard

The Mortgagee may request full reimbursement of eviction and other possessory action costs that are:

- required by state and local law in jurisdictions where the Mortgagee is required to bring a separate possessory action in addition to foreclosure; and
- reasonable and customary for that jurisdiction and actually necessary to accomplish the eviction or other possessory action.

Where debris removal is required by state and local law as part of the eviction or possessory action, the Mortgagee may claim these costs as eviction costs.

HUD will not reimburse the Mortgagee for the following fees and costs:

- fees and costs in excess of reasonable and customary fees and costs and lacking documentation supporting the amount claimed;
- fees and costs unnecessary for the protection, acquisition, or conveyance of the Property, such as courier services, document retrieval, express mail, or property inspection by attorneys;
- Mortgagee's overhead items such as postage, telephone, duplication, or collection services; or
- compensation paid to an attorney or trustee who is a salaried employee of the Mortgagee.

(3) Required Documentation

The Mortgagee may include costs for evictions and possessory actions in Line 111 of form HUD-27011.

The Mortgagee must include in the Claim File documentation supporting any claimed costs associated with compliance with state and local law.

(I) Tax Bills

(1) Standard

The Mortgagee may request reimbursement for all tax bills paid.

The Mortgagee may not request reimbursement for late fees and/or interest penalties charged by the taxing jurisdiction for late payment of taxes.

(2) Required Documentation

The Mortgagee must:

- upload into P260 any documentation (such as a paid receipt, a copy of the Mortgagee's tax payment history screen, a report, or screenshot of a report, from a tax monitoring service indicating that property taxes are not delinquent, or other documentation showing the amount paid, the purpose of the payment, and the date the payment was made by the Mortgagee) that is necessary to validate that such payment was made;
- certify in the claim form that all tax bills due within 30 Days of conveyance are paid as of the date of conveyance;
- document payment of tax bills in Item 32, "Schedule of Tax Information," of Part A of form HUD-27011; and

- retain invoices, paid bill receipts, a report from a tax monitoring service indicating that property taxes are not delinquent, and other documentation necessary to validate that such payment was made in the Claim File.

(J) Deed-in-Lieu Borrower Consideration

To claim the DIL Borrower Consideration after successful use of DIL in accordance with HUD policies, the Mortgagee must enter it in Item 305 as an Acquisition Cost.

(K) Attorney's Fees

(1) Standard

(a) Up to Maximum Fee in HUD Schedule

The Mortgagee may claim reimbursement for up to the amounts shown on the Appendix 5.0 – HUD Schedule of Standard Possessory Action and Deed-In-Lieu of Foreclosure Attorney Fees for fees reasonably relating to the amount of work performed for the current Default.

The Mortgagee may claim no more than 75 percent of the maximum attorney fee for incurred fees associated with a routine foreclosure that was not completed because any of the following occurred after the Mortgagee initiated foreclosure:

- the Borrower filed for a bankruptcy petition;
- the Borrower executed a DIL of Foreclosure; or
- the Borrower successfully completed a PFS.

HUD will reimburse allowable attorney fees in accordance with HUD guidance pertaining to the reimbursement of foreclosure costs.

(b) For Amounts Exceeding the Maximum Fee and Not Provided for in HUD Schedule

For additional expenses incurred due to required legal actions such as mediation or probate proceedings, the Mortgagee may claim reimbursement for these costs by:

- providing a documented cost breakdown and written justification with the claim submission, and retaining a copy in the Claim File; and
- filing a supplemental claim for amounts above the maximum fee.

(c) Fees Relating to Bankruptcy

The Mortgagee may claim reimbursement for attorney's fees as follows:

- up to the fee set in the HUD Schedule for costs actually incurred for each bankruptcy; or

- reasonable and customary attorney's fees incurred when the bankruptcy was not routine.

Mortgagees may not claim additional attorney's fees for defending against court-ordered involuntary principal reductions (or "cramdowns") as part of a bankruptcy, nor may Mortgagees claim fees that have already been included in a Loss Mitigation Option.

(2) Required Documentation

The Mortgagee may claim reimbursement for attorney's fees by entering into Part D of the initial filing of form HUD-27011 the following information:

- Item 305, "Disbursements for HIP, taxes, ground rents and water rates (which were liens prior to mortgage), eviction costs and other disbursements not shown elsewhere,": Enter up to the maximum fee set forth in the Appendix 5.0 – HUD Schedule of Standard Possessory Action and Deed-In-Lieu of Foreclosure Attorney Fees for possessory actions.
- Item 306, "Attorney/Trustee Fees": Enter the amount of attorney or trustee fees actually incurred. The Mortgagee must itemize the elements of the fee if the fees exceed the amount that is HUD-approved for the area.
- Item 307, "Foreclosure and/or acquisition, conveyance and other costs": Itemize any other legal costs paid by the Mortgagee, not including disbursements shown in Item 306. Mortgagees must not enter attorney's fees in Item 307.
- Item 310, "Bankruptcy": Enter an amount up to the maximum fee set forth in the HUD Schedule for costs actually incurred for each bankruptcy and reasonable and customary attorney's fees incurred when the bankruptcy was not routine.

(L) Foreclosure and Acquisition Costs

(1) Definition

Foreclosure and Acquisition Costs are those costs associated with the Mortgagee's foreclosure of the Property and acquisition of good marketable title to the Property.

(2) Standard

The Mortgagee may request reimbursement for fees and costs that are:

- necessarily incurred in foreclosure proceedings; and
- reasonable and customary in the area.

For all Mortgages endorsed prior to February 1, 1998, HUD will reimburse the Mortgagee's foreclosure costs at two-thirds of the foreclosure costs.

For all Mortgages endorsed on or after February 1, 1998, HUD will reimburse the Mortgagee's foreclosure costs based on the Tier Ranking System (TRS) ranking of the Mortgagee as of the date the Part B claim is received by HUD as follows:

- for non-Tier 1 Mortgagees, 67 percent of foreclosure costs;
- for Tier 1 Mortgagees, 75 percent of foreclosure costs; and
- for all Mortgagees, the amount actually paid by the Mortgagee over a credit bid necessary to acquire the Property at CAFMV at the foreclosure sale.

HUD will reimburse Mortgagees 100 percent of amounts actually paid by the Mortgagee over the credit bid necessary to acquire the Property at CAFMV at the foreclosure sale. Mortgagees must list the amount in Item 305 of Part D and provide documentation in P260.

HUD will not reimburse the Mortgagee for the following fees and costs:

- fees and costs in excess of reasonable and customary fees and costs, which lack documentation supporting the amount claimed;
- fees and costs unnecessary for the protection, acquisition, or conveyance of the Property, such as courier services, document retrieval, express mail, or property inspection by attorneys;
- Mortgagee's overhead items such as postage, telephone, duplication, or collection services;
- compensation paid to an attorney or trustee who is a salaried employee of the Mortgagee; or
- extra costs incurred in foreclosures that result from defects in the mortgage transaction or foreclosure or defects in the title existing at or before the time the Mortgage was filed for record. HUD may reimburse these costs if the Mortgage was sold by the Secretary or was executed in connection with the sale of a Property by the Secretary after August 1, 1969.

(3) Required Documentation

The Mortgagee must reflect total foreclosure costs in Items 306, 307, and 310 of form HUD-27011. HUD will then calculate either the two-thirds or 75 percent allowance, as appropriate, for both expenses and interest.

(M) Bankruptcy

HUD will reimburse fees related to bankruptcy as based on the Mortgagee's tier ranking. HUD will reimburse allowable bankruptcy fees in accordance with HUD guidance pertaining to the reimbursement of foreclosure costs.

If there are multiple bankruptcies for a Mortgage in Default, the Mortgagee may request reimbursement for the fees and costs related to each filing.

(1) Extension for Initiation of Foreclosure

(a) Standard

If the Mortgagee is unable to initiate foreclosure due to the Borrower's filing of bankruptcy and the time limit to initiate foreclosure had not expired prior to the bankruptcy petition being filed, the Mortgagee may reflect the use of the 90-Day extension to initiate foreclosure by entering in form HUD-27011:

- the date of the filing of the bankruptcy petition in Item 40;
- the release date of the bankruptcy stay in Item 21;
- a date 90 Days after the release of the bankruptcy stay, including any applicable extensions, in Item 19; and
- the date the foreclosure action was initiated or reinitiated, if canceled due to the bankruptcy, in Item 11.

(b) Required Documentation

The Mortgagee must retain in the Claim File:

- dated copies of the court's release form the bankruptcy stay;
- copies of any demand letters or notices required by applicable state law; and
- any approvals for extensions received by HUD.

(2) Extensions for Foreclosure Completion

If the Mortgagee is unable to timely complete the foreclosure due to the filing of a bankruptcy petition, the Mortgagee must:

- note the cause of the delay in the "Mortgagee's comments" section of Part A; and
- retain supporting documentation in the Claim File.

(N) Rental of the Property

(1) Standard

HUD will not reimburse the Mortgagee for costs incurred solely in renting the Property prior to conveyance. If rental produces a net profit, HUD will reduce the amount of the claim by that profit.

(2) Required Documentation

If the Mortgagee rents the Property, the Mortgagee must include on form HUD-27011:

- any Rental Income on Item 115, Part B; and
- rental expenses, as an offset to Rental Income, on Item 116, Part B.

(O) Section 235 Assistance Payments

(1) Unapplied Payments

The Mortgagee must return unearned Section 235 assistance to HUD via the Section 235 billing process. The Mortgagee must apply earned payments to the Borrower's account in full installments to advance the date of account and report Partial Payments in Item 123 of Part B.

(2) Overpaid Assistance

For funds that were advanced to repay overpaid Section 235 assistance to HUD and were not recovered from the Borrower, the Mortgagee must enter the unrecovered advance in Item 123, Column B, Part B.

(P) Deficiency Judgments

(1) Standard

When HUD required the deficiency judgment action or when HUD has approved the Mortgagee's request to pursue the Judgment, the Mortgagee may request full reimbursement of the following fees:

- cost of reasonable and customary attorney fees which relate only to obtaining the deficiency Judgment;
- additional filing or recording fees directly related to the deficiency Judgment; and
- if local law required a judicial foreclosure in order to obtain a deficiency Judgment, those costs directly related to the judicial foreclosure.

(2) Required Documentation

The Mortgagee must note costs related to deficiency Judgments in Item 410 of form HUD-27011.

(Q) Late Fees and Interest Penalties

Unless otherwise stated specifically in this Handbook 4000.1 or otherwise authorized by HUD, the Mortgagee may not request reimbursement for late fees and/or interest penalties on escrowed items.

iii. FHA Refinance of Borrowers in Negative Equity Positions

Submission of Claim to HUD

For claims for Mortgages under the FHA Refinance of Borrowers in Negative Equity Positions, or FHA Short Refinance program, the Mortgagee may file a conveyance claim and request reimbursement for all allowable Part B expenses.

iv. Submission of Claim Form Parts to HUD for Conveyance Claims

(A) Submission of Part A

(1) To HUD

The Mortgagee must submit Part A to HUD headquarters via EDI, FHAC, or FHA Catalyst.

The Mortgagee must submit Part A no later than two business days after the date the deed to HUD is filed for record or mailed to the recording authority.

(2) To P260

The Mortgagee must upload into P260:

- a copy of Part A;
- a copy of the deed to the Secretary of HUD, their successors and assigns filed for record;
- documentation of the last tax bills paid to each taxing authority;
- a copy of HUD's letter approving damaged conveyance of the Property under 24 CFR § 203.379(a), if applicable;
- the Mortgagee's certificate that the conditions of 24 CFR § 203.379(b), relating to fire damage, have been met, if applicable; and
- a copy of documentation that will verify that appropriate action was taken to protect and preserve the Property.

The Mortgagee must upload these documents no later than two business days after the date the deed to HUD is filed for record or mailed to the recording authority.

(B) Submission of Parts B, C, D, and E

(1) To HUD

The Mortgagee must submit Part B to HUD headquarters via EDI, FHAC, or FHA Catalyst. When submitting via FHA Catalyst the Mortgagee must also submit Parts C, D, and E.

The Mortgagee must submit Part B within the later of:

- 45 Days after the deed was filed for record or mailed or submitted to the recording authority; or
- 15 Days after the Title Approval Date in FHAC.

The Mortgagee must retain Parts C, D, and E in the Claim File.

(2) To P260

The Mortgagee must upload into P260:

- Parts B, C, D, and E; and
- required supporting documentation of amounts claimed.

The Mortgagee must upload into P260 Parts B, C, D, and E within the later of:

- 45 Days after the deed was filed for record or mailed or submitted to the recording authority; or
- 15 Days after the Title Approval Date in FHAC.

b. Claim Type 02 - Assignment or Single Family Loan Sale Program (07/01/2025)

A Mortgagee participating in HUD's SFLS Program or assigning a Mortgage to HUD under the Indian Land or Hawaiian Home Lands programs may submit a claim under Claim Type 02.

i. Hawaiian Home Lands Mortgages (Section 247 Mortgages) Claims

The Mortgagee may assign to HUD Mortgages in Default that are insured under Section 247 of the National Housing Act and file claims for mortgage insurance benefits.

(A) Computation of Interest

HUD will pay mortgage note interest accrued and unpaid at the time of assignment. HUD will pay debenture interest on the net claim amount, excluding mortgage note interest, from the date of assignment to the date of claim payment.

If the Mortgagee fails to meet HUD's time requirement to submit the claim, HUD will notify the Mortgagee of the date of curtailment to be entered in form HUD-27011.

(B) Computation of Claims

The Mortgagee may claim up to 100 percent of the unpaid principal balance, plus allowable costs and debenture interest.

HUD will reimburse the Mortgagee for reasonable and customary costs associated with the assignment as follows.

(1) Allowable Costs

The Mortgagee may claim reimbursement for:

- fees paid to recorders of deeds or public trustees;
- costs required by law;
- property and preservation costs performed in accordance with HUD guidance before the date of assignment; and
- other fees and costs necessarily incurred and are customary in the area.

(2) Disallowable Costs

The Mortgagee may not claim reimbursement for the following fees and costs:

- fees and costs in excess of reasonable and customary fees and costs and lacking documentation supporting the amount claimed;
- fees and costs unnecessary for the protection, acquisition, or conveyance of the Property, such as courier services, document retrieval, express mail, or property inspection by attorneys;
- Mortgagee's overhead items such as postage, telephone, duplication, or collection services; and
- costs for title policies.

(C) Submission of Claim Form Parts to HUD for Hawaiian Home Lands Mortgages

The Mortgagee may only file a claim after:

- the Mortgagee has notified the Department of Hawaiian Home Lands (DHHL) of the Borrower's Default by letter by the 90th Day of Delinquency;
- the Borrower's Default has remained uncured for 180 Days;
- the Mortgagee has met all regulatory program requirements, including the Interview and required loss mitigation evaluation; and
- HUD has issued the assignment acceptance letter to the Mortgagee via P260.

The Mortgagee must submit form HUD-27011 to HUD via EDI or FHA Catalyst. For EDI submissions, the Mortgagee must submit Parts A and B simultaneously. For FHA Catalyst submissions, the Mortgagee must submit Parts A, B, C, D, and E. The Mortgagee must retain copies of all Parts of form HUD-27011 in the Claim File.

ii. Insured Mortgages on Indian Land (Section 248 Mortgages) Claims

With HUD approval, the Mortgagee may assign to HUD Mortgages that are in Default and are insured under Section 248 of the National Housing Act and file claims for mortgage insurance benefits.

(A) Computation of Interest

HUD will pay mortgage note interest accrued and unpaid at the time of assignment. HUD will pay debenture interest on the net claim amount, excluding mortgage note interest, from the date of assignment to the date of claim payment, unless interest is curtailed.

(B) Computation of Claim

The Mortgagee may claim up to 100 percent of the unpaid principal balance, plus allowable costs and debenture interest.

HUD will reimburse the Mortgagee for reasonable and customary costs associated with the assignment as follows.

(1) Allowable Costs

The Mortgagee may claim reimbursement for:

- fees paid to recorders of deeds or public trustees;
- costs required by law;
- property and preservation costs performed in accordance with HUD guidance before the date of assignment; and
- other fees and costs necessarily incurred and are customary in the area.

(2) Disallowable Costs

The Mortgagee may not claim reimbursement for the following:

- fees and costs in excess of reasonable and customary fees and costs and lacking documentation supporting the amount claimed;
- fees and costs unnecessary for the protection, acquisition, or conveyance of the Property, such as courier services, document retrieval, express mail, or property inspection by attorneys;
- Mortgagee's overhead items such as postage, telephone, duplication, or collection services; and
- costs for title policies.

(C) Submission of Claim Form Parts for Section 248 Mortgages

(1) Submission of Claim Form Parts to HUD

The Mortgagee must submit form HUD-27011 to HUD via EDI or FHA Catalyst. For EDI submissions, the Mortgagee must submit Parts A and B simultaneously. For FHA Catalyst submissions, the Mortgagee must submit Parts A, B, C, D, and E. The Mortgagee must retain copies of all Parts of the form HUD-27011 in the Claim File.

(2) Submission of Claim Form Parts as Part of Request for Title Approval

At the time the Mortgagee files its claim, the Mortgagee must send to HUD's Loan Servicing Contractor:

- copies of Parts A and B;
- a copy of the original Mortgage;
- a copy of the original Note with endorsement;
- a copy of assignment to HUD;
- copies of all intervening assignments;
- the Mortgagee's original title policy evidencing the Mortgage's first lien position;
- a copy of Part D;

- a copy of the Title Submission Certificate;
- the original of all hazard insurance policies and a copy of the notice to the insurance carrier requesting that HUD be named beneficiary in the Mortgagee clause;
- documentation of the last tax bill paid;
- all payment records and, if capitalization method is used, a worksheet showing allocation of payments per mortgage terms;
- a copy of the buydown agreement, if any, and all documents which relate to the payment amount or application of the payments;
- a copy of HUD's letter approving assignment of a damaged Property under 24 CFR § 203.379(a), if applicable;
- the Mortgagee's certificate that the conditions of 24 CFR § 203.379(a)(2), relating to fire damage, have been met, if applicable;
- documentation showing that the requirements of 24 CFR § 203.604 have been met;
- a statement relating to title defects if 24 CFR § 203.390 applies; and
- for Section 235 Mortgages, the following documentation, if not otherwise provided to HUD:
  - the last two recertifications of family income and composition;
  - employment verifications;
  - a Notice of Suspension, Termination and Reinstatement of Assistance Payments Contract, if applicable; and
  - if the case is subject to Section 235 recapture of assistance payments, the total dollar amount of assistance applied to the account through the date of assignment.

iii. Single Family Loan Sales Claims

The SFLS Program is a program through which participating Mortgagees may file assignment claims for insurance benefits.

SFLS claims are only authorized in connection with the execution of a Participating Servicer Agreement (PSA) between HUD and the Mortgagee for an identified Distressed Asset Stabilization Program (DASP) sale, which is the sale through which HUD will dispose of the asset after payment of the claim. The SFLS claim is governed by the specific terms of the PSA for the specific DASP sale identified in the PSA.

(A) Claim Submission Process

The Mortgagee must follow the initial claim submission and claim submission report procedures set forth in the PSA. Upon the Mortgagee's compliance with these procedures, HUD will enter an SFLS Claim Identification Date in the claims processing system.

On the business day after the award of the pools of Mortgages, HUD will enter a list of awarded Mortgages (Award Report) in the claims processing system.

For Mortgages with an SFLS Claim Identification Date and that are included in the Award Report, the Mortgagee may submit assignment claims until the Claims Cut-off Date noted on Schedule I of the PSA. The Mortgagee may only submit assignment claims for eligible mortgages as defined in the PSA.

For Mortgages that are not awarded in the sale, the Mortgagee may submit insurance claims under CWCOT procedures and as further described in the PSA.

(B) Submission of Claim Form Parts to HUD for SFLS

(1) To HUD

The Mortgagee must submit Part A and Part B to HUD headquarters via EDI or FHA Catalyst. When submitting via FHA Catalyst, the Mortgagee must also submit Parts C, D, and E.

(2) To P260

The Mortgagee must upload into P260:

- a copy of Parts A, B, C, D, and E;
- documentation of the last tax bills paid to each taxing authority; and
- any supporting documentation required by the PSA.

c. Claim Type 05 - Supplemental Claims/Remittances (03/01/2023)

The Mortgagee may submit a supplemental claim under Claim Type 05.

i. Definition

A Supplemental Claim is a claim readjusting the initial claim payment due to delayed disbursements or claim calculation or payment errors.

ii. Standard

The Mortgagee may submit one supplemental claim within six months of final settlement for conveyance claims or full settlement for all other claim types in the following circumstances:

- when a vendor delays submitting an invoice to the Mortgagee for an allowable expense;
- for amounts paid after the date the original claim was filed if the obligations were incurred before the deed or assignment to HUD was filed for record or was paid on HUD's written instruction;
- requests for reconsideration of disallowed costs; or
- additional attorney fees not paid on the original claim.

The Mortgagee may submit subsequent supplemental claims in the following circumstances:

- overpayments due to HUD;
- hazard insurance refund adjustments;
- deficiency Judgments;
- additional unpaid principal balance, with debenture interest, not paid on the original claim; or
- where the Mortgagee has received approval from the Single Family Claims Branch to file a subsequent supplemental.

The Mortgagee may not submit supplemental claims prior to receipt of the original Part B payment except when Part A was overpaid.

iii. Overpayments and Funds Due HUD

(A) Definition

An Overpayment is HUD's payment of a claim in an inaccurate amount that results in money owed by the Mortgagee to HUD.

(B) Claim Involves Overpayment

If the claim involves an overpayment, the Mortgagee must:

- remit amounts due; and
- retain in the Claim File a supplemental claim Part A explaining how the overpayment occurred in the "Mortgagee's comments" section.

(C) Claim Involves a Computation of Interest

If the amount overpaid or received involved a computation of interest, the Mortgagee must:

- remit amounts due to HUD, including in the reimbursement:
  - interest calculated by the Mortgagee and included in Part B; and
  - interest calculated by HUD for the period from the date of claim to the date of payment; and
- retain in the Claim File a supplemental claim Part A explaining how the overpayment occurred in the "Mortgagee's comments" section.

(D) Remittance of Amounts Due

The Mortgagee must remit amounts due via pay.gov using the Claim Remittance functions in FHAC.

iv. Hazard Insurance Refund Adjustment

(A) Standard

The Mortgagee may submit a supplemental claim for a hazard insurance refund adjustment when it has met all of the following conditions:

- hazard insurance costs were included in the initial submission of form HUD-27011, Part B; and
- the Mortgagee has documented in its Claim File its efforts in diligently following up with the hazard insurance carrier to confirm any necessary adjustment.

Refer to Time Frame for Submission of Hazard Insurance Refund Adjustment for guidance regarding the period during which such a supplemental claim may be submitted.

(B) Claim Form Preparation

When completing and submitting the supplemental claim, the Mortgagee must:

- include a copy of the carrier's notification with its submission; and
- clearly indicate in the "Mortgagee's comments" section that the supplemental claim is being filed to recover an adjustment to the hazard insurance premium refund.

v. Deficiency Judgments

The Mortgagee may submit one supplemental claim for the additional costs related to the pursuit of the deficiency Judgment when all such known costs were included in the initial submission of Part B of form HUD-27011, or, to the extent possible, are claimed within six months from the date of final settlement of the initial Part B.

vi. Attorney Fees

The Mortgagee may submit a supplemental claim for attorney fees if it believes that it is entitled to an amount more than was actually reimbursed in the initial claim payment. The supplemental claim must include:

- a supplemental claim form HUD-27011, with an explanation of the need for the increased fee in "Mortgagee's comments;"
- a copy of all Parts submitted in the original claim filing;
- a copy of the final Advice of Payment letter; and
- copies of the attorney chronology and any documentation necessary to support the additional claimed amount.

The Mortgagee must retain in the Claim File adequate documentation supporting all attorney fees. Should HUD determine in a post-claim review that the claim for attorney fees is greater than allowed amounts or is unsupported by documentation, HUD will bill the Mortgagee for overpayment as:

- an amount statistically calculated for all claims within the review period; or
- the actual amount of the overpayment, if the review was not based on a statistical sample.

vii. Claims for Additional Funds

The Mortgagee may submit one supplemental claim for additional funds within six months of the date of final settlement for conveyance claims or full settlement for all other claim types.

(A) Supplemental Claims for Correction of Dates in Part A

When the claim for additional funds is based on a corrected date on the Part A claim, the Mortgagee must include:

- the form HUD-27011 reflecting the corrected date(s);
- the reason for the supplemental claim in the "Mortgagee's comments" section;
- the certification on the accuracy and validity of all other dates in the "Mortgagee's comments" section; and
- all supporting documentation.

(1) Certification

When the claim for additional funds is based on a corrected date on the Part A claim, the Mortgagee must provide with this supplemental claim a certification as to the accuracy and validity of all other dates on the Part A claim which affect time requirements and the payment of interest on the claim. This certification must include:

- a statement that all such dates have been rechecked against the claim filing instructions in this Handbook 4000.1; and
- a statement describing the document referenced by the Mortgagee for each of these dates.

(2) Required Supporting Documentation

The Mortgagee must provide the following supporting documentation for corrected claims:

- Item 8, "Due date last complete installment paid": Include Mortgage Payment history record.
- Item 9, "Date of possession and acquisition of marketable title": Include legal documentation such as sheriff's deed, redemption documentation, receipt of sale funds, recorded DIL, proof of eviction date, inspection report, and a chronology of events from the date in Item 11 to the date in Item 9.
- Item 10, "Date deed or assignment filed for record or date of closing or appraisal": Include recorded deed or assignment, transmittal letter to recording authority, or Closing Disclosure or similar legal document.
- Item 11, "Date foreclosure proceedings (a) Instituted or (b) Date of deed in lieu": Include documentation of first legal action taken to institute foreclosure, such as the recorded complaint, or publication of notice of sale, or the recorded DIL.

- Item 17, "Unpaid loan balance as of date in block 8": Include copies of the mortgage Note, Loan Modification (if applicable), and payment history record.
- Item 19, "Expiration date of extension to foreclose/assign": Include the printout from Extensions and Variances Automated Requests System (EVARS) of HUD's approval (form HUD-50012, *Mortgagee's Request for Extensions of Time*) of the extension and/or supporting documentation for all automatic extensions.
- Item 20, "Date of notice/extension to convey": Include the printout of the MCM's approval (form HUD-50012) from P260 or support for the SFLS Claim Identification Date.
- Item 21, "Date of release of bankruptcy, if applicable": Include a copy of the bankruptcy initiation document and release notice, release of stay, or discharge notice.
- Item 31, "Mortgagee reported curtailment date": Include form HUD-27011 Part D filed with the original claim submission, with applicable documentation to support curtailment correction.
- "Disbursements for Protection and Preservation": Include the form HUD-27011 Part C filed with the original claim submission, with supporting documentation for all P&P expenses.
- Disbursements (taxes, HIP, possessory action costs), foreclosure costs, attorney fees, bankruptcy costs, all other disbursements: Include documentation showing payment made, including paid receipts or invoices and supporting documentation. If cost incurred after the date the deed or assignment was filed for recording, include a printout of the MCM's approval from P260 to pay costs.
- Taxes paid after date of deed to HUD: If taxes were paid after the date the deed or assignment was filed for recording, include a printout of the MCM's approval for payment before filing a supplemental claim.

(B) Claims for Additional Funds When Subject to Administrative Offsets Not Permitted

The Mortgagee must not claim additional funds when HUD is offsetting amounts.

(C) Claims for Funds Related to Partial Claims Not Permitted

If the Mortgagee claimed less than the actual Partial Claim note amount, the Mortgagee must absorb the cost of the miscalculation and must not:

- claim the additional funds from HUD; or
- add the deficient note amount to the Borrower's mortgage balance.

HUD will not accept corrected Partial Claims.

viii. Submission of Supplemental Claim Form Parts to HUD

The Mortgagee must submit supplemental claims in accordance with HUD guidance pertaining to Claim Type 05 submissions. Mortgagees must submit supplemental claims electronically through the FHA Catalyst Claims Module, (A) or (B).

(A) FHA Catalyst: Claims Module

The Mortgagee must upload to the Claims Module:

- copies of the original Parts A and B of the supplemental claim;
- copies of Parts C, D, and E of the supplemental claim, if applicable;
- supporting documents; and
- copies of all Parts of the original claim.

(B) Time Frame for Submission of Supplemental Claims

For supplemental claims involving overpayments identified by the Mortgagee, including its own QC reviews, the Mortgagee may submit a remittance of overpayments and funds received by the Mortgagee at any time.

For supplemental claims involving recouping additional unpaid principal balance not reimbursed on the original Part A claim, the Mortgagee may submit a claim at any time.

For all other supplemental claims, the Mortgagee must submit supplemental claims no later than six months after the date of final payment, except where noted below.

(1) Time Frame for Submission of Hazard Insurance Refund Adjustment

The Mortgagee may submit a supplemental claim for a hazard insurance refund adjustment under any of the following conditions:

- within six months from the date of final settlement of the original Part B claim; or
- if the Mortgagee received the insurance carrier's notification more than six months from the date of final payment, the Mortgagee must submit the supplemental claim within 24 Days from the date of the insurance carrier's notification and must document in its Claim File its efforts in diligently following up with the hazard insurance carrier to confirm any necessary adjustment. HUD will not accept the supplemental claim for a hazard insurance refund adjustment more than one year from the date of final settlement.

(2) Time Frame for Submission of Deficiency Judgments Costs

When HUD has required the Mortgagee to pursue a deficiency Judgment, the Mortgagee must submit one supplemental claim for the additional costs related to the deficiency Judgment within the latter of:

- one year from the date of final settlement of the initial Part B; or
- three months after the deficiency Judgment.

(3) Extension to Time Frame for Submission

If more than one year is needed to request reimbursement for related Housing Insurance Premium (HIP) adjustments or deficiency Judgments, the Mortgagee must request an extension from the MCM. When using an extension based on deficiency Judgments or HIP adjustments, the Mortgagee may not include in its supplemental claim other types of costs they may have failed to include in the earlier claim.

The Mortgagee must include with its supplemental claim an electronic copy of the MCM's approval (form HUD-50012).

(4) HUD Requests for Additional Information

Supplemental claims previously submitted and returned to the Mortgagee for further information must be received by HUD as soon as possible but no later than 45 Days from the date of HUD's letter and/or request.

ix. Variance Requests for Additional Supplemental Claim Submissions

The Mortgagee generally may only submit one supplemental claim. When circumstances outside of the Mortgagee's control require the submission of additional supplemental claims, the Mortgagee must submit a request to the Single Family Claims Branch before filing a supplemental claim.

x. Appeals of Supplemental Claim Disposition

The Mortgagee may submit an appeal of a denied supplemental claim within 60 Days from the date the supplemental claim was denied through the FHA Catalyst System or via an encrypted email to FHASupplementalClaims@hud.gov with the subject: Supplemental Claim Appeal XXX-XXXXXX.

d. Claim Type 06 - Claims Without Conveyance of Title (04/29/2026)

i. Computation of Interest

(A) Debenture Interest

Provided that the Mortgagee has met all time requirements, HUD will pay debenture interest on the unpaid principal balance from the date of Default to either:

- the date the Mortgagee or third-party bidder obtains title; or
- the date the Borrower redeems the Property.

HUD will then pay debenture interest on the difference between the unpaid principal balance and the greater of either the CAFMV, redemption amount, or the third-party bid, to the date of final payment of the claim.

(B) Calculating Interest for an Expenditure Using Daily Interest Rate Factors

HUD will pay debenture interest on expenses from the date of expenditure to the date of final payment of the claim, as calculated using the method in Calculating Interest for an Expenditure using Daily Interest Rate Factors.

(C) Calculating Interest for Default after Special Forbearance-Unemployment or Special Forbearance

When the Mortgagee files a claim for insurance benefits after a Default under an SFB-Unemployment Agreement or SFB, HUD will pay mortgage note interest as calculated under the procedures in Calculating Interest for Default after Special Forbearance-Unemployment or Special Forbearance.

(D) Curtailment of Interest

The Mortgagee must self-curtail interest on Single Family claims for the following failures to meet HUD requirements as of the date on which the required action should have been taken:

- failure to timely initiate foreclosure;
- failure to give HUD notice of foreclosure;
- failure to meet Reasonable Diligence Time Frames; and
- failure to file the claim within 30 Days of:
  - the date the Mortgagee acquired good marketable title;
  - the date a third party acquired good marketable title;
  - the date the Borrower or other party redeemed the Property;
  - the date the redemption period expires; or
  - such other date as required by the FHA Commissioner.

If more than one time requirement is missed and there are no applicable extensions, the Mortgagee must calculate the interest for the claim payment to the earliest missed time requirement.

ii. Computation of Claim Amount

(A) Standard

The Mortgagee may claim 100 percent of the unpaid principal balance, plus allowable costs and debenture interest. HUD will deduct from the claim amount the sale bid or redemption price.

(B) Eviction and P&P Costs When Property Is Sold to a Third Party

When filing a CWCOT claim where a third party is the successful bidder at the foreclosure sale, the Mortgagee may not claim eviction costs as part of the CWCOT claim. Mortgagees may only be reimbursed for Cash for Keys on CWCOT claims resulting from post-foreclosure sales efforts.

When a third party is the successful bidder at the foreclosure sale or the Mortgagee elects to retain the Property and file a CWCOT claim, the Mortgagee may claim reimbursement for Property P&P costs incurred before the foreclosure sale. If the Property is sold as part of a post-foreclosure sales effort, the Mortgagee may claim reimbursement for Property P&P costs incurred before the Closing Date.

(C) Hazard Insurance Premiums

HUD will not reimburse the Mortgagee for any hazard insurance premiums allocated to the period after acquisition of title by the Mortgagee or a third party.

(D) Deficiency Judgments

When HUD requests that the Mortgagee pursue a deficiency Judgment pursuant to 24 CFR § 203.369, the Mortgagee may request full reimbursement of certain fees.

(E) Third-Party Auction Service Fees

For successful third-party sales only, HUD will reimburse Mortgagees for independent third-party auction service fees they incur for an amount that does not exceed 5 percent of a Property's sales price.

(F) Foreclosure and Acquisition Costs

HUD will reimburse Mortgagees for amounts actually paid by the Mortgagee over the credit bid necessary to acquire the Property at CAFMV at the foreclosure sale. Mortgagees must list the amount in Item 305 of Part D and provide documentation in P260.

iii. Submission of Claim Form Parts to HUD for CWCOT

The Mortgagee must submit Parts A and B simultaneously no later than 30 Days after:

- the date the Mortgagee acquired good marketable title;
- the date a third party acquired good marketable title;
- the date the Borrower or other party redeemed the Property;
- the date the redemption period expires; or
- such other date as required by the FHA Commissioner.

When filing via EDI, FHA Catalyst, or FHAC, the Mortgagee must submit Parts A and B no later than two Days after the date the form was prepared. When submitting via FHA Catalyst, the Mortgagee must also submit Parts C, D, and E.

In all cases, the Mortgagee must also upload into P260:

- all Parts of form HUD-27011;
- the Closing Disclosure or similar legal document for post-foreclosure sales;
- the appraisal;
- appraisal invoices;
- a worksheet reflecting the Mortgagee's application of the CAFMV. The worksheet must include the CAFMV adjustment percentage provided in the instructions on FHAC, any amount paid by the Mortgagee over the credit bid necessary to acquire the Property at CAFMV at the foreclosure sale, and where applicable, the state-mandated foreclosure price; and
- a third-party service fee invoice for auction services, if applicable.

e. Claim Type 07 - Pre-Foreclosure Sales (09/26/2022)

The Mortgagee may file a claim for a PFS incentive and insurance benefits under Claim Type 07.

i. Computation of Interest

(A) Standard

HUD will pay debenture interest as follows:

- on the unpaid principal balance from the date of Default to the date of the closing of the PFS;
- on the difference between the unpaid principal balance, plus allowable costs and advances, and the net PFS proceeds from the date of the closing of the PFS to the date of claim settlement;
- on allowable costs and advances from the date of expenditure to the date of the closing of the PFS; and
- when a Default under an SFB-Unemployment Agreement or SFB Agreement is involved, from the last date of the mortgage interest calculation to the date of the closing of the PFS.

(B) Calculating Interest for an Expenditure

The Mortgagee must calculate the amount of interest to be claimed for an expenditure as follows:

- multiply the Daily Interest Rate Factor (see Appendix 8.c Daily Interest Rate Factor in the *Claim Filing Technical Guide*) by the amount paid; then
- multiply this result by the number of Days from the date paid (or Default date, if later) for each Item to the date of closing of the PFS, as listed in Item 10.

ii. Computation of Claim Amount

(A) Allowable Costs

HUD will reimburse the Mortgagee for reasonable and customary costs as follows.

(1) Mortgagee Advances for Escrow Funds

The Mortgagee may claim reimbursement for advances of escrow funds as provided for in Escrow Funds.

(2) Property Preservation and Protection Costs

The Mortgagee may claim reimbursement for the cost of inspections and P&P actions performed in accordance with HUD guidance for the current Default, for costs incurred before the Closing Date of the PFS.

(3) Taxes, Assessments, Hazard Insurance, and Other Allowable Items

The Mortgagee may claim reimbursement for disbursements for taxes, assessments, Hazard Insurance and other allowable items payable which were not satisfied at closing. HUD will only reimburse property-related costs which were incurred before the PFS Closing Date.

(4) Attorney's Fees for Postponed Foreclosure

For a foreclosure that was postponed pending the successful completion of the PFS, the Mortgagee may claim reimbursement for attorney fees commensurate with the work actually performed up to the point of the cessation of the legal action, not exceeding 75 percent of the amount established as reasonable and customary in Appendix 5.0 – HUD Schedule of Standard Possessory Action and Deed-In-Lieu of Foreclosure Attorney Fees.

(5) Satisfaction of Junior Liens

The Mortgagee may claim reimbursement for the amounts paid to satisfy or release junior liens Paid Outside Closing (POC), as long as these amounts are not included in the Closing Disclosure or similar legal document.

(6) Appraisal and Title Search

The Mortgagee may claim reimbursement for reasonable and customary costs of the appraisal, Broker's Price Option (BPO) or Automated Valuation Model (AVM), and title search, if not included in the Closing Disclosure or similar legal document.

(7) Borrower Consideration

The Mortgagee may not claim reimbursement for the amount of the PFS Borrower Consideration, which is to be included on the Closing Disclosure.

(8) PFS Incentive Payment

HUD will pay the Mortgagee a financial incentive for the use of the PFS Option in compliance with all regulatory requirements and procedures relating to the submission of incentive claims in FHAC.

(B) Disallowable Costs

HUD will not reimburse the Mortgagee for the following costs.

(1) Items Already Included on Closing Disclosure

The Mortgagee may not claim reimbursement for costs that have already been included on the Closing Disclosure or similar legal document.

(2) Eviction Costs

The Mortgagee may not claim reimbursement for any costs incurred to evict residents from the mortgaged Property.

(3) Property Preservation and Protection Costs Incurred after Closing

The Mortgagee may not claim reimbursement for Property P&P costs incurred after the date of closing of the PFS.

(4) Hazard Insurance Premiums Paid after Closing

The Mortgagee may not claim reimbursement for hazard insurance premiums for the period after the PFS closing.

(C) Deductions from Claim Amount

HUD will deduct the following items from the total claim amount.

(1) Money Received after Closing

HUD will deduct all amounts received by the Mortgagee on the Mortgage after closing of the PFS.

(2) Rent or Other Income

HUD will deduct from the claim any amount by which Rental Income exceeds rental expenses.

(3) Money Retained by Mortgagee

HUD will deduct from the claim any amounts retained by the Mortgagee for the Borrower's account which have not been applied to reduction of principal.

(4) Sales Proceeds

HUD will deduct from the claim amount all amounts received by the Mortgagee relating to the sale of the Property.

iii. Extensions to the Time Requirement to Initiate Foreclosure

To reflect the use of HUD's automatic extension to the time requirement to initiate foreclosure in order to utilize a PFS, the Mortgagee must enter into form HUD-27011:

- the ending date of the terminated or failed PFS transaction in Item 20 of Part A; and
- in Item 19, a date that is no more than 90 Days after the date listed in Item 20.

iv. Submission of Claim Form Parts to HUD for PFS

The Mortgagee must submit Parts A and B simultaneously to HUD no later than 30 Days after the PFS Closing Date and retain the original Parts in the Claim File. If submitting the claim via FHA Catalyst, the Mortgagee must submit Parts A through E.

f. Claim Type 31 - Special Forbearance (06/15/2020)

The Mortgagee may file a claim for an SFB-Unemployment incentive under Claim Type 31. HUD will pay the Mortgagee a financial incentive for the use of an SFB-Unemployment Option in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the SFB-Unemployment Agreement or the incentive claim will not be processed.

g. Claim Type 32 ** - FHA-HAMP Loan Modification (06/15/2020)

The Mortgagee may file a claim for an FHA-HAMP Loan Modification incentive, including up to $250 in title-related expenses, under Claim Type 32 **. HUD will pay the Mortgagee a financial incentive for the use of an FHA-HAMP Loan Modification in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may only file for an incentive fee for the Loss Mitigation Option used to cure the Default. When the FHA-HAMP Partial Claim and FHA-HAMP Loan Modification are used together, the Mortgagee must submit two separate claims for the incentives for these two options.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the FHA-HAMP Loan Modification or the incentive claim will not be processed.

h. Claim Type 32 ** - Loan Modification (10/01/2025)

The Mortgagee may file a claim for an incentive, including up to $250 in title-related expenses, under Claim Type 32 **. HUD will pay the Mortgagee a financial incentive for the use of a Loan Modification in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to cure the Default. When the Partial Claim and Loan Modification are used together, the Mortgagee must submit two separate claims.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the Loan Modification or the incentive claim will not be processed.

i. Claim Type 32 - Disaster Loan Modification (10/01/2025)

The Mortgagee may file a claim for a Disaster Loan Modification incentive, including up to $250 in title-related expenses, under Claim Type 32. HUD will pay the Mortgagee a financial incentive for the use of a Disaster Loan Modification in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to cure the Default. When the Disaster Partial Claim and Disaster Loan Modification are used together, the Mortgagee must submit two separate claims.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the Loan Modification or the incentive claim will not be processed.

j. Claim Type 33 ** - FHA-HAMP Partial Claim (06/15/2020)

The Mortgagee may file a claim for an FHA-HAMP Partial Claim incentive and insurance benefits under Claim Type 33 **. HUD will pay the Mortgagee a financial incentive for the use of an FHA-HAMP Partial Claim in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may only file for an incentive fee for the Loss Mitigation Option used to cure the Default. When the FHA-HAMP Partial Claim and FHA-HAMP Loan Modification are used together, the Mortgagee must submit two separate claims for the incentives for these two options.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the promissory Note and Mortgage or the incentive will be disallowed.

k. Claim Type 33 ** – Partial Claim (10/01/2025)

The Mortgagee may file a claim for a Partial Claim incentive and insurance benefits under Claim Type 33 **. HUD will pay the Mortgagee a financial incentive for the use of a Partial Claim.

The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to cure the Default. When the Partial Claim and Loan Modification are used together, the Mortgagee must submit two separate claims.

The Mortgagee may include an incentive fee if the claim is submitted no later than 60 Days from the execution date of the Partial Claim.

l. Claim Type 33 – Disaster Partial Claim (10/01/2025)

The Mortgagee may file a claim for a Disaster Standalone Partial Claim insurance benefit under Claim Type 33, using the Default Reason Code 43. The Mortgagee may include in its claim the accumulated Arrearages, eligible unreimbursed Mortgagee advances, and allowable fees and costs.

The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to cure the Default. When the Partial Claim and Loan Modification are used together, the Mortgagee must submit two separate claims.

The Mortgagee may include an incentive fee if the claim is submitted no later than 60 Days from the execution date of the Partial Claim.

m. Claim Type 33 – Standalone Partial Claim during Payment Supplement Period (10/01/2025)

The Mortgagee may file a claim for a Standalone Partial Claim incentive and insurance benefits under Claim Type 33. The Mortgagee may include in its claim the accumulated Arrearages, eligible unreimbursed Mortgagee advances, and related fees and costs as outlined in Payment Supplement.

The Mortgagee may file for an incentive fee only when the Standalone Partial Claim is used to cure the Default during the Payment Supplement Period.

The Mortgagee may include an incentive fee if the claim is submitted no later than 60 Days from the execution date of the Partial Claim.

n. Claim Type 33 – National Emergency Standalone Partial Claim (01/30/2023)

The Mortgagee may file a claim for a National Emergency Partial Claim incentive and insurance benefits for a COVID-19 National Emergency Partial Claim or COVID-19 Recovery Partial Claim under Claim Type 33. The Mortgagee may include in its claim the accumulated arrearages, eligible unreimbursed Mortgagee advances, and related fees and costs.

HUD will pay the Mortgagee a financial incentive for the use of a COVID-19 Recovery Partial Claim in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may file for an incentive fee only for the Loss Mitigation Option used to cure the Default. When the COVID-19 Recovery Partial Claim and COVID-19 Recovery Modification are used together, the Mortgagee must submit two separate claims for the incentives for these two options.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the promissory Note and Mortgage or the incentive will be disallowed.

o. Claim Type 32 – COVID-19 Recovery Modification or COVID-19 Advance Loan Modification (01/30/2023)

The Mortgagee may file a claim for a COVID-19 Recovery Modification incentive or a COVID-19 Advance Loan Modification (COVID-19 ALM) incentive, including up to $250 in title-related expenses, under Claim Type 32. HUD will pay the Mortgagee a financial incentive for the use of a COVID-19 Recovery Modification or a COVID-19 ALM in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may only file for an incentive fee for the Loss Mitigation Option used to cure the Default. When the COVID-19 Recovery Partial Claim and COVID-19 Recovery Modification are used together, the Mortgagee must submit two separate claims for the incentives for these two options.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the COVID-19 Recovery Modification or the COVID-19 ALM or the incentive claim will not be processed.

p. Claim Type 33 – Payment Supplement (11/10/2026)

The Mortgagee may file a claim for a Payment Supplement incentive and insurance benefits under Claim Type 33 – Payment Supplement after the Mortgage is brought current. The Mortgagee may include in its claim the amounts needed to bring the Mortgage current in the same manner as a Standalone Partial Claim in addition to the funds needed for the Monthly Principal Reduction (MoPR) payments required for the Payment Supplement Period.

HUD will pay the Mortgagee a one-time financial incentive for the use of a Payment Supplement in compliance with requirements relating to the submission of incentive claims.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst no later than 60 Days after the execution date of the Payment Supplement Documents or the claim will be denied. Where the Mortgagee is waiting on approval of a Payment Supplement from a bankruptcy court, the Mortgagee may file a claim for a Payment Supplement no later than 60 Days after the date of approval from the court.

q. Claim Type 33 – Disaster Payment Supplement (11/10/2026)

The Mortgagee may file a claim for a Disaster Payment Supplement incentive and insurance benefits under Claim Type 33 – Disaster Payment Supplement after the Mortgage is brought current. The Mortgagee may include in its claim the amounts needed to bring the Mortgage current in the same manner as a Disaster Standalone Partial Claim, in addition to the funds needed for the MoPR payments required for the Payment Supplement Period.

HUD will pay the Mortgagee a one-time financial incentive for the use of a Payment Supplement in compliance with requirements relating to the submission of incentive claims.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst no later than 60 Days after the execution date of the Payment Supplement Documents or the claim will be denied. Where the Mortgagee is waiting on approval of a Payment Supplement from a bankruptcy court, the Mortgagee may file a claim for a Payment Supplement no later than 60 Days after the date of approval from the court.

3. Payment of Claims

a. Processing of Claim Forms (01/02/2020)

HUD will generate payment to the Mortgagee if:

- the Mortgagee's submission of Parts A and B pass all system edits and control checks; and
- the Mortgagee provides all required documentation or makes all necessary updates to the suspended claim.

HUD may reduce the claim payment if the claim lists unusually high disbursements that are not supported by documentation. HUD may require reimbursement of any amounts that are found to be excessive or not supported by appropriate documentation.

When a Mortgagee files a claim, other than a supplemental claim or Loss Mitigation Incentive claim, after the expiration of a designated time period, HUD will accept these claims, which will be subject to interest curtailment.

i. Initial Payment

(A) Definition

The Initial Claim Payment, which is referred to as the Partial Payment on the Advice of Payment, is the disbursement to the Mortgagee of funds relating to Part A of form HUD-27011.

(B) Standard

HUD will pay the unpaid principal balance plus debenture interest upon receipt and processing of Part A and required attachments.

Before debenture interest is calculated, HUD will reduce the unpaid principal balance by the greater of any damage or insurance recovery reported in Item 27. HUD's Claims system will determine the amount of debenture interest.

ii. Final and Full Payments

(A) Definition

The Final Claim Payment is the disbursement to the Mortgagee of funds relating to Part B of form HUD-27011 for conveyance claims.

The Full Claim Payment is the disbursement to the Mortgagee of funds relating to Part A and Part B of form HUD-27011 for claims other than conveyance claims.

(B) Standard

As Final Claim Payment for conveyance claims, HUD will pay the Mortgagee's expenses, allowances, and debenture interest upon receipt and processing of Part B and required attachments.

As Full Claim Payment for claims other than conveyance claims, HUD will pay unpaid principal balance, the Mortgagee's expenses, allowances, and debenture interest upon receipt and processing of Part A and Part B claims and required attachments.

b. Method of Payment (09/30/2016)

HUD makes all claim disbursements through the U.S. Treasury Electronic Funds Transfer (EFT) wire transfer application.

c. Disbursement of Claim (09/30/2016)

For Claim Type 31 only, HUD will disburse the incentive payment to the Servicer. For all other Claim Types, HUD will not honor requests for claim payments to be disbursed to any entity other than the holder of the Mortgage.

d. Negative Claim Amount (02/16/2021)

If the Net Claim Amount in Part B (Item 137) of the original conveyance claim is a negative amount, HUD will calculate the claim, making the necessary adjustments for the costs of foreclosure, and will bill the Mortgagee for the amount due.

e. Advice of Payment and Title Approval (02/16/2021)

When a claim is processed in the HUD Claims system, HUD will provide the Advice of Payment and Title Approval (where applicable) via FHAC. Mortgagees may locate both the Advice of Payment and Title Approval under the Single Family Insurance Claims Processing menu in the Single Family FHA/Single Family Servicing section of FHAC. Advice of Payment is available by accessing the "Claim Status" function, while Title Approval is available by accessing the "Title Approval Status" function.

When a claim is being processed outside of the HUD Claims system, HUD will provide copies of the Advice of Payment and Title Approval (where applicable) letters to the Mortgagee.

If claims have been grouped together into one EFT payment, HUD will provide the Mortgagee with a spreadsheet detailing the FHA case numbers, mortgagee reference numbers, and claim payment amounts.

4. Withdrawal or Cancellation of Conveyance Claims

a. Withdrawal of Application for Insurance Benefits (09/30/2016)

If the claim has not yet been paid, the Mortgagee may apply in writing to HUD's MCM for consent to withdraw an application of insurance benefits. The Mortgagee must agree to:

- accept Reconveyance of the Property;
- promptly file a Reconveyance for record;
- accept the title evidence it furnished to HUD; and
- reimburse HUD for expenses incurred in holding the Property.

b. Refund of Claim Payment (02/16/2021)

HUD will review and process refunds of duplicate claim payment resubmissions, payment submissions in error, or overpayments. Refunds will be remitted to the holder of record only. If the Servicer submits a refund request, then the email must include the holder. All requests should be submitted to HUD via an encrypted email at fha_sfclaims@hud.gov with the subject: Claim Payment Refund Request.

c. Cancellation of Insurance Benefits due to Reconveyance (03/01/2023)

i. Reconveyance

(A) Definition

A Reconveyance is a conveyance of a Property from HUD back to the Mortgagee due to the Mortgagee's failure to comply with HUD's conveyance requirements or at the Mortgagee's request.

(B) Standard

When HUD reconveys a Property, the Mortgagee must return all insurance funds received from the claim associated with that Property. For Mortgages insured on or after November 19, 1992, the Mortgagee must also reimburse HUD for its holding costs and expenses incurred in the acquisition and Reconveyance of the Property.

(C) Reduction of Insurance Benefits due to Changes in Value

For Mortgages insured on or after November 19, 1992, if there is a reduction in the estimate of value from the time of Reconveyance to the time of reapplication for insurance benefits, HUD will deduct from the claim amount the difference in value.

(D) FHA Short Refinance

For Mortgages under the FHA Short Refinance program, the Mortgagee will be required to repay all claim funds to FHA, including the claim funds paid under the Emergency Economic Stabilization Act (EESA), in the event the Property is reconveyed to the Mortgagee.

(E) Costs Relating to Title Defects

(1) Insured on or after November 19, 1992

For Mortgages insured under a *Firm Commitment* issued on or after November 19, 1992, or under Direct Endorsement processing where the credit worksheet was signed by the Mortgagee's approved underwriter on or after November 19, 1992, HUD may require the Mortgagee to correct title defects within 60 Days after the Mortgagee receives notice from the Secretary or within such further time as the Secretary may approve in writing.

The Mortgagee may retain the insurance benefits already paid, but HUD will not reimburse the Mortgagee for any costs involved in correcting the title.

(2) Insured before November 19, 1992

For Mortgages insured under a *Firm Commitment* issued before November 19, 1992, or under Direct Endorsement processing where the credit

worksheet was signed by the Mortgagee's approved underwriter before November 19, 1992, HUD may require the Mortgagee to correct title defects within such time as the Secretary may approve in writing.

Where HUD allows the Mortgagee time to correct title defects, the Mortgagee may retain the insurance benefits already paid, but HUD will not reimburse the Mortgagee for any costs involved in correcting the title.

(3) Reimbursement to HUD for Holding Costs and Interest

If a title defect is not corrected within HUD's time frame, the Mortgagee must reimburse HUD for holding costs and interest on the paid insurance benefits from the date of the notice to the date the defect is corrected or to the date the Secretary reconveys the Property, within the time frame stated by HUD in its Demand Letter.

(4) Costs Associated with Correcting Title

The Mortgagee is responsible for the costs in correcting title defects and for property expenses pending correction, except where HUD has sold the Property or Mortgage with an adverse interest senior to the Mortgage and causing the title defect.

(5) Improper Deed to HUD

If the Property was improperly deeded to HUD and the Property has been sold, HUD will remit to the Mortgagee the sales price less expenses of the sale and expenses incurred while the Property was in HUD's inventory.

(F) Property Preservation Costs

(1) Standard

The Mortgagee is responsible for any damages the Property has sustained while in the Mortgagee's possession, if the Property was conveyed without prior notice and approval by HUD.

If a Property is reconveyed because of damage, the Mortgagee must withdraw its claim for insurance benefits and reimburse HUD for property expenditures.

(2) Holding Costs

(a) Definition

Holding Costs are those costs paid by HUD related to taxes, maintenance and operating expenses of the Property, and administrative expenses.

(b) Standard

If HUD finds that the Mortgagee did not comply with its conveyance standards, the Mortgagee must reimburse HUD for holding costs and interest on the paid insurance benefits from the date of the notice to the date the defect is corrected or to the date the Secretary reconveys the Property, as determined by HUD.

(G) Appeals of Reconveyances due to Property Condition

HUD has established a two-stage appeal procedure for disputes between Mortgagees and HUD regarding Reconveyance requests due to property condition.

(1) Appealing to the Mortgagee Compliance Manager

If the Mortgagee disagrees with HUD's decision to reconvey, the Mortgagee may appeal the Reconveyance via email in P260 to the MCM within 10 Days from the date the response was due or received from HUD.

(2) Appealing to HUD

If the Mortgagee believes that the MCM's decision is not supported by regulation or circumstances and has exhausted all appeal methods available through the MCM, the Mortgagee may appeal the decision to reconvey the Property to HUD's Contracting Officer's Representative (COR).

The Mortgagee must submit the written appeal to the COR within 10 Days from the date the response was due or received from the MCM.

HUD's decision is final and HUD will not accept further appeals.

ii. Reacquisition by HUD and Resubmission of Claim

(A) Reacquisition

(1) Definition

Reacquisition is the process by which a Mortgagee conveys to HUD a Property that has been previously reconveyed to the Mortgagee.

(2) Standard

After the Mortgagee has corrected the problem causing Reconveyance, the Mortgagee may request reacquisition by HUD of a reconveyed Property and resubmit the claim.

Where a Mortgagee used the CWCOT procedure and the Property was reconveyed, the Mortgagee may choose to retain that Property, instead of requesting reacquisition by HUD.

(B) Reacquisition Package

(1) Standard

The Mortgagee must prepare and submit a reacquisition package to the MCM via email through P260 requesting permission to convey the Property to HUD. The Mortgagee must ensure that this package demonstrates:

- that any title issues have been resolved, if applicable;
- that any required repairs have been completed, if applicable; and
- that the Property is ready to be conveyed to HUD.

The Mortgagee must attach a copy of the Preliminary Notice of Intent to Reconvey in its email to the MCM.

(2) Required Documentation

For Properties reconveyed due to title issues, the Mortgagee must include in its reacquisition package:

- documentation demonstrating that all title issues are fully remediated; and
- for Manufactured Housing, evidence that the Manufactured Home is affixed to the land, is classified and taxed as real estate, and the title to the Manufactured Home has been surrendered or purged in accordance with the jurisdictional requirements.

For Properties reconveyed due to damage, the Mortgagee must include in its reacquisition package:

- current dated color photographs that support repairs; and
- current inspection reports or other documentation evidencing that repairs have been completed and that the Property is in conveyance condition.

(C) Resubmission of Claim (09/28/2020)

Once the MCM accepts the Property for reacquisition, the Mortgagee may re-apply for insurance benefits. The Mortgagee must resubmit form HUD-27011, Parts A and B, as applicable, via FHA Catalyst.

(D) Expenses and Interest after Reconveyance

The Mortgagee must not include on its reacquisition claim any property expenses or debenture interest not included in the initial claim filing. HUD will not reimburse these additional expenses as part of the reacquisition claim.

If necessary, the Mortgagee may submit a reconveyance supplemental claim for additional property expenses or debenture interest incurred before initial conveyance to HUD. The Mortgagee must submit the reconveyance supplemental claim within six months of the final settlement date of the reacquisition claim.

5. Post-claim Reviews

a. Definition (08/19/2024)

A Post-Claim Review is a review of one or more claim files by HUD or its agent to determine the Mortgagee's compliance with HUD's claim guidance and to verify the accuracy and appropriateness of amounts claimed.

b. Standard (04/18/2023)

HUD or its agent may conduct a post-claim review at any time within three years after the claim is paid. This time frame does not apply to or limit enforcement reviews. If the Mortgagee is notified within the three-year period that its claims will be reviewed by HUD or its agent, all claim files must be maintained until completion and final settlement of the review.

The Mortgagee must be able to show support for all information entered on the application for insurance benefits. When filing a claim, the Mortgagee is responsible for the completeness and accuracy of the claim submission and for any overpayments identified on claims by HUD.

If a question arises regarding the support of an amount reimbursed on an insurance claim, the burden of proof is on the Mortgagee to show that the amount is valid and reasonable.

c. Selection of Claims for Review (08/19/2024)

HUD uses risk based sampling to select claims for review. In addition, HUD may use statistical sampling to select claims for review and, based upon the results of the statistical sampling, may extrapolate the amount of any overpayment over all claims paid during the subject review period to determine the amount due HUD for overpayments.

d. Frequency of Reviews (09/30/2016)

HUD may review any paid claim file at any time within three years after the claim is paid.

Where state Housing Finance Agencies (HFA) have settled 50 or fewer FHA mortgage insurance claims in a 12-month period, the HFA may elect to defer the review to a biennial (occurring every two years) schedule.

e. Notification to Mortgagee of Claim Review (08/19/2024)

HUD will notify Mortgagees before beginning its claims review. The Mortgagee must make available to HUD copies of identified claim files, in the format requested, within 24 hours of a request or such other time as permitted by HUD. Refer to HUD Requests for Information and Missing Claim Files for additional guidance.

Denial of access to a file may be grounds for enforcement action.

f. HUD's Initial Report (08/19/2024)

HUD will review the result of the claims review prior to the issuance of a report.

After completion of the reviews, HUD will issue the initial report identifying:

- any discrepancies resulting from inaccuracies, omissions, missed time requirements, or unsupported claim information;
- the Mortgagee's potential liability (potential amount owed); and
- whether or not the Mortgagee is in compliance with HUD's claim filing guidelines.

The Mortgagee's potential liability is the greater of:

- the actual monetary errors found; or
- the lower limit of the statistical projection of monetary errors owed to HUD based on a confidence interval of 95%.

g. Mortgagee Response Procedures to HUD's Initial Report (09/30/2016)

The Mortgagee may provide any additional documentation that could affect the review results within 45 Days from the date of the initial report. If no additional documentation is provided within 45 Days, HUD will consider the report final and the potential liability identified will become the amount owed.

h. Findings Based on Mortgagee Response (09/30/2016)

HUD will review additional information provided by the Mortgagee within the response timeline and, if applicable, will make adjustments to the potential amount owed. HUD will issue a follow-up report stating the revised Finding, if any, and any new Findings.

i. Mortgagee Response Procedures to HUD's Follow-Up Report (09/30/2016)

Within 21 Days from the date of the follow-up report, the Mortgagee may provide additional documentation that could affect the review results. If no additional documentation is provided within 21 Days, HUD will consider the report final and the potential liability identified will become the amount owed.

If further documentation is submitted to refute the Findings in the follow-up report, HUD will review the documentation and issue a final report stating:

- the revised Findings (if any);

- any new Findings; and
- that the review is being referred to the Albany Financial Operations Center (FOC) for enforced debt collection, if applicable.

j. Referral for Collections (09/30/2016)

HUD will send the post-claim review to the Albany FOC for collection of the outstanding amount. HUD will pursue any outstanding amounts via Treasury Offset if the amount remains outstanding.

k. Referral for Enforcement Review (09/30/2016)

HUD may, at its discretion, refer cases to the appropriate office(s) for enforcement review based on the post-claim review.

6. Debt Collection and Administrative Offset

HUD may use the debt collection and administrative offset process to collect money owed by the Mortgagee due to an improper claim amount.

a. Demand Letter (01/02/2020)

To establish the debt, HUD will send a Demand Letter to the Mortgagee. Within 30 Days of the date of the Demand Letter, the Mortgagee must:

- remit overpaid amounts; or
- take other such action, including submitting a rebuttal, as provided in the Demand Letter.

b. Notice of Intent to Collect Administrative Offset (09/30/2016)

i. Issuance of Notice of Intent to Collect by Administrative Offset

HUD will issue a Notice of Intent to Collect by Administrative Offset to the Mortgagee, should the Mortgagee fail to respond to the Demand Letter, or should HUD determine that the Mortgagee's rebuttal fails to demonstrate that the Mortgagee is not responsible for the debt.

ii. Required Mortgagee Action

The Mortgagee must remit funds within 30 Days from the date of the Notice of Intent to Collect by Administrative Offset.

iii. Request for HUD Review

After receiving a Notice of Intent to Collect by Administrative Offset, the Mortgagee may request a review of the case in accordance with 24 CFR Part 17 and/or as otherwise instructed in the Notice.

iv. Departmental Review

Appeals will be reviewed in accordance with 24 CFR Part 17.

c. Initiation of Offset Action (09/30/2016)

HUD will initiate the offset action if HUD does not receive the funds from the Mortgagee within 30 Days from the date of the Notice of Intent to Collect by Administrative Offset and the Mortgagee has not submitted a request for a HUD review of the determination of indebtedness.

B. TITLE II DISPOSITION

This section provides the standards and procedures applicable to the disposition of Real Estate Owned (REO) Single Family Properties acquired by HUD as a result of foreclosure of FHA-insured Mortgages or special acquisitions. All parties participating in HUD disposition programs must fully comply with all of the following standards and procedures. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

1. Management and Marketing Program

HUD's Management and Marketing (M&M) program is HUD's contracting network used to manage and market Single Family Properties owned by or in the custody of HUD.

a. HUD Contractors (09/30/2016)

i. Mortgagee Compliance Manager

Mortgagee Compliance Managers (MCM) are HUD's M&M contractors responsible for ensuring compliance with HUD's conveyance standards related to title, occupancy, and property condition.

ii. Field Service Manager

Field Service Managers (FSM) are HUD's M&M contractors responsible for providing property maintenance and preservation services for Properties owned by or in the custody of HUD.

iii. Asset Manager

Asset Managers (AM) are HUD's M&M contractors responsible for the marketing and sale of Properties owned by or in the custody of HUD.

b. Nondiscrimination Policy (11/07/2023)

All parties engaged in contracting, occupancy, rental, and sales activities relating to HUD-owned Properties must conduct these activities without regard to race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of Property.

c. P260 Portal (09/30/2016)

i. Definition

P260 is HUD's web-based portal for submitting requests and documentation relating to Property Preservation and Protection (P&P), conveyance, and disposition activities.

ii. Standard

HUD-approved Mortgagees and M&M contractors must use P260 or its successor system to report and upload documentation for activities related to the Property.

HUD expects FHA Roster Appraisers, HUD-Registered Real Estate Brokers, and Closing Agents to use P260 to fulfill their documentation submission requirements.

2. REO Property Disposition

a. Property and Sales Condition (09/30/2016)

i. As-Is Condition

(A) Definition

As-Is Condition refers to the condition of a Property without repairs, representations, or warranties.

(B) Standard

HUD markets Properties under the following categories, based on the as-is condition of the Property at the time of listing as determined by one or more evaluation tools, such as an appraisal, Broker's Price Opinion (BPO), or Automated Valuation Model (AVM):

- insurable;
- insurable with repair escrow; or
- uninsurable.

ii. Vacant Lots

(A) Definition

A Vacant Lot is a Property without improvements or Structures.

(B) Standard

HUD may raze Structures or offer the vacant lot for sale where Properties are so damaged that repair by HUD or the buyer is not feasible and where one of the following conditions exist:

- the Property has already been unsuccessfully offered for sale in its as-is condition;
- a local ordinance or agreement prohibits as-is sales of such Properties; or
- the Structure must immediately be razed by HUD to remove a serious public hazard.

Where there is no immediate need to raze the Property or where it would be otherwise inappropriate to sell the Property as-is, HUD may sell the Property with the requirement that the buyer raze the Structure after sales closing.

iii. Held Off Market

(A) Definition

Held Off Market is the status of a HUD REO Property that is unavailable for sale.

(B) Standard

HUD may designate a Property as held off market when a property, title, occupancy, or other condition delays or prohibits HUD's ability to market or sell the Property.

Should the adverse condition be resolved, HUD may then list the Property for sale.

b. List Price (09/30/2016)

i. Definition

List Price is the "asking price" of a Property based on Market Value.

ii. Standard

HUD will offer a Property for sale at the list price based on Market Value, reflecting the highest and best use in the current market, competitive with Properties being offered by other sellers.

The AM will monitor assigned transactions to ensure that Properties are valued and sold in a manner in accordance with market conditions.

For vacant lots, HUD will offer the lots at the estimated Market Value of the lot based on comparable vacant lot prices, considering highest and best use.

c. Marketing Tools (09/30/2016)

i. Standard

In marketing HUD REO Properties, listing brokers are expected to use those contemporary industry marketing tools used in marketing non-REO Properties in that area, which may include, but are not limited to:

- utilizing yard signage and online advertising;
- encouraging pre-qualification or pre-approval of potential buyers;
- holding open houses or holding webinars, seminars, or workshops on HUD property sales; and
- requesting limited repair of Properties, with approval by HUD.

Listing brokers must ensure that all written advertising includes the Equal Housing Opportunity logo, statement, or slogan.

HUD, at its discretion, may offer bonuses or other sales incentives to real estate brokers.

ii. HUD Home Store

(A) Definition

HUD Home Store is the listing site for HUD REO Single Family Properties.

(B) Standard

HUD will post its inventory of HUD REO Properties for sale on HUD Home Store.

iii. Local Real Estate Agent Associations and Listing Sites

HUD expects listing brokers to work with their local National Association of Realtors (NAR) boards and similar organizations and use a local Multiple Listing Service (MLS) and other industry standard listing sites to market HUD REO Properties.

iv. Online Marketing Tools

Listing brokers are expected to use such contemporary online marketing tools as the following:

- full application of internet tools to present houses in multimedia formats with MLS, with extensive photographs, video, and documentation;
- search engine optimization;
- Quick Response (QR) codes or other technology to assist buyers in accessing property information; and
- marketing blogs or other tailored social media.

v. Hard-to-Sell Properties

(A) Definition

A Hard-to-Sell Property is a HUD REO Property located in a specific market area characterized by such sales conditions as large numbers of non-HUD vacant Properties, declining neighborhoods, or severely depressed local economy.

(B) Standard

The AM is responsible for designating hard-to-sell Properties under HUD guidance.

HUD offers a minimum sales commission for Properties designated as hard-to-sell on HUD Home Store and, at its discretion, may offer bonuses or other sales incentives to real estate brokers.

HUD will prescribe the time frame and conditions under which bonuses or other sales incentives will be offered.

vi. Revitalization Areas

(A) Definition

Revitalization Areas are designated geographic areas in which HUD identifies Properties eligible for disposition through discount sales programs.

(B) Standard

HUD will designate Revitalization Areas based on the following criteria:

- very low income areas;
- high concentration of HUD REO Properties; and
- low homeownership rate.

State, local, or tribal governments or HUD-approved Nonprofits may request that HUD designate a geographic area as a Revitalization Area by sending a written request to the Director of the Homeownership Center (HOC) for the area.

d. Prospective Buyers (01/02/2020)

i. Owner-Occupant Buyers

(A) Definition

An Owner-Occupant Buyer is a buyer who intends to use the Property as their Principal Residence.

(B) Standard

A buyer may purchase HUD REO Properties as an Owner-Occupant Buyer if:

- they certify that they will occupy the Property as their Principal Residence for at least 12 months; and
- they have not purchased a HUD-owned Property within the past 24 months as an owner occupant.

The selling broker must not knowingly submit the offer on behalf of a person or entity that is not an Owner-Occupant Buyer and must discuss the penalties for false certification with the buyer.

The buyer and selling broker must sign a Purchase Addendum for Individual Owner-Occupant Buyers certifying to the above conditions.

Buyers using FHA-insured financing must begin their owner-occupancy terms as stated in FHA Requirement for Owner Occupancy. Buyers purchasing under the Good

Neighbor Next Door (GNND) Sales Program must begin their owner-occupancy terms as stated in Owner-Occupancy Term.

(C) Required Documentation

The Owner-Occupant Buyer and selling broker must complete and submit with their offer a Purchase Addendum for Individual Owner-Occupant Buyers.

ii. Investor Buyers

An Investor Buyer is a buyer who will not occupy the HUD REO Property as their Principal Residence.

iii. Good Neighbor Next Door Participants

(A) Definitions

Good Neighbor Next Door (GNND) Participants are law enforcement officers, teachers, firefighters, or emergency medical technicians who are eligible to purchase HUD REO Properties under the GNND Sales Program.

Locality is the community, neighborhood, or jurisdiction of the unit of general local government or Indian tribal government.

A Unit of General Local Government is a county or parish, city, town, township, or other political subdivision of a state.

(B) Standard

GNND participants may purchase designated single-unit HUD REO Properties in Revitalization Areas at a discount of 50 percent off the list price.

The GNND participant must bid the full list price; the AM will reflect any applicable discounts in the sales price.

(C) Eligible Participants

Buyers must meet all of the following requirements in order to purchase through the GNND Sales Program. The AM will ensure that Buyers are eligible to participate in the program.

(1) Full-Time Employment as a Law Enforcement Officer, Teacher, or Firefighter or Emergency Medical Technician

At the time the bid is submitted and at the time of closing, the buyer must be employed full-time as one of the following:

- a law enforcement officer:

  - who is employed full-time by a law enforcement agency of the federal government, a state, a unit of general local government, or an Indian tribal government;
  - whose full-time employment, in the normal course of business, directly serves the locality in which the home is located; and
  - who, in carrying out such full-time employment, is sworn to uphold, and make arrests for violations of, federal, state, tribal, county, township, or municipal laws;
- a teacher:
  - who is employed as a full-time teacher by a state-accredited public school or private school that provides direct services to students in grades pre-kindergarten through 12; and
  - whose full-time employment, in the normal course of business, serves students from the locality where the home is located; or
- a firefighter or Emergency Medical Technician (EMT):
  - who is employed full-time as a firefighter or EMT by a fire department or emergency medical services responder unit of the federal government, a state, unit of general local government, or an Indian tribal government serving the locality where the home is located.

The buyer must certify to their good faith intention to continue employment as a law enforcement officer, teacher or firefighter/EMT for at least one year after the date of closing.

(2) Purchasing as Owner-Occupant Buyer

The buyer must agree to own, and live in as their sole residence, the purchased Property for the owner-occupancy term of 36 months and certify that occupancy annually.

(3) Execution of Second Mortgage and Note

The buyer must agree to execute a second Mortgage and Note on the house for the difference between the list price and the discounted selling price.

(4) Restrictions Related to Previous GNND Sales Program Purchases

The buyer nor their spouse must not:

- have owned any residential Real Property during the year before they submitted a bid on the Property to be purchased through the GNND Sales Program; and
- have purchased another house under the GNND Sales Program.

(D) Eligible Properties

GNND participants may purchase designated single-unit HUD REO Properties under the GNND Sales Program that are located:

- in a HUD-designated Revitalization Area; and
- in the community where the GNND participant works (applicable to teacher and firefighter/EMT buyers only).

iv. Governmental Entities and HUD-Approved Nonprofits

(A) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality. To be considered an Instrumentality of Government (IOG), the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion). HUD deems Section 115 entities to be IOGs for the purpose of providing secondary financing.

HUD-approved Nonprofit organizations approved to participate in FHA nonprofit programs are eligible to purchase HUD REO Properties.

(B) Purchasing as Owner-Occupant Buyers

(1) Standard

Governmental Entities and HUD-approved Nonprofits are included in the definition of Owner-Occupant Buyers and may purchase Properties during the same periods in which Owner-Occupant Buyers may purchase. HUD-approved Nonprofits are responsible for compliance with their Affordable Housing Program Plan (AHPP).

(a) Purchases during Direct Sale Periods

When purchasing HUD-owned Properties at a 10 percent or greater discount as part of a direct sale, Governmental Entities and HUD-approved Nonprofits must complete and submit with their offer a Land Use Restriction Addendum (LURA).

(b) Purchases during Competitive Sales Periods

(i) **Exclusive Listing Period**

Governmental Entities and HUD-approved Nonprofits may purchase Properties during the exclusive listing period as long as they:

- certify that they will own the Property for at least 12 months;
- have not purchased a HUD-owned Property during the exclusive listing period within the past 24 months; and
- complete and submit an Exclusive Listing Period Purchase Addendum for Governmental Entities and HUD-Approved Nonprofits with their offer.

(ii) Extended Listing Period

Governmental Entities and HUD-approved Nonprofits may purchase Properties during the extended listing period and are not required to complete an Exclusive Listing Period Purchase Addendum for purchases made without discount.

(2) Required Documentation

Where applicable, the Governmental Entity or HUD-approved Nonprofit must complete and submit with their offer a LURA or Exclusive Listing Period Purchase Addendum for Governmental Entities and HUD-Approved Nonprofits.

(C) Use of Selling Brokers

HUD will not pay selling broker commission for Properties purchased by Governmental Entities and HUD-approved Nonprofits.

Where guidance in this section directs the selling broker to perform a specific action, a designated agent of the Governmental Entity or HUD-approved Nonprofit may perform this action.

(D) Discounts on Direct Sales

For direct sales, Governmental Entities and HUD-approved Nonprofits may purchase HUD REO Properties at the following discounts on the list price:

- 30 percent off the list price for uninsured Properties located within a Revitalization Area;
- 10 percent off the list price for insured or uninsured Properties located outside of a Revitalization Area;
- 10 percent off the list price for insured Properties located within a Revitalization Area; and
- 15 percent off the list price for insured or uninsured Properties located outside of a Revitalization Area and insured Properties located in a Revitalization Area when:
  - the AM has accepted five or more bids from the Governmental Entity or HUD-approved Nonprofit within a 15 business day period; and
  - the sales are closed in a single transaction.

(E) Restrictions on Resale

Governmental Entities and HUD-approved Nonprofits must comply with the restrictions on resale as stated in an executed LURA or Exclusive Listing Period Purchase Addendum.

To request exceptions to the restrictions on resale, the Governmental Entity or HUD-approved Nonprofit may submit a request in writing to HUD.

v. HUD Employees

(A) Standard

HUD employees and members of HUD employees' households are eligible to purchase HUD REO Properties as Owner-Occupant Buyers if:

- they do not currently own a house and can demonstrate and certify that they will occupy the Property as their Principal Residence for at least two years;
- they have not purchased a HUD-owned Property within the past 24 months as an owner occupant; and
- they are not prohibited buyers.

Eligible HUD employees and members of their households must obtain supervisor and Office of Single Family Asset Management (SFAM) approval before bidding on a HUD-owned Single Family house.

(1) Form HUD-50001, *HUD Employee/Relative: Home Purchase Certification*

The HUD employee must complete form HUD-50001, *HUD Employee/Relative: Home Purchase Certification*, by:

- describing their job and/or relationship to the proposed buyer;
- certifying that they have no involvement with the management and oversight of the M&M contractors' activities; and
- obtaining their immediate supervisor's signature.

(2) Approval by the Office of Single Family Asset Management

The HUD employee must email the signed form HUD-50001 to the Director of SFAM for approval. SFAM will notify the employee if they are approved to purchase HUD REO Properties.

(3) Period of Eligibility to Bid

The approved HUD employee or member of the HUD employee's household is eligible to bid on HUD REO Properties for up to 12 months from the date of the approval.

(4) Recertification

The approved HUD employee or member of the HUD employee's household must re-certify by completing form HUD-50001 and obtaining the required approvals in the event of any job change.

(B) Required Documentation

The HUD employee must complete and submit with their offer a Purchase Addendum for Individual Owner-Occupant Buyers. The HUD employee must include on the Addendum their Social Security Number (SSN) and date of birth.

vi. Prohibited Buyers

The following are prohibited from purchasing HUD REO Properties.

(A) HUD REO Staff

The following HUD employees and their household members are prohibited from purchasing HUD REO Properties:

- all HUD management personnel who are part of the management chain that has authority over the Single Family REO disposition process;
- all headquarters SFAM employees;
- all HUD employees that have direct or indirect responsibilities for policy development, procurement, and disposition of Single Family REO Properties; and
- all HOCs, field and regional offices' employees that have direct or indirect oversight responsibilities of M&M contractors.

(B) Participants in HUD REO Marketing and Management

Certain participants involved in the management, listing, and/or marketing of HUD REO Properties, and their immediate Family Members, are prohibited by contract from engaging in activities that would involve a real or apparent conflict of interest, to include the purchasing of HUD REO Properties. Such parties should contact the Contracting Officer's Representative (COR) for information on eligibility to purchase HUD REO Properties.

(C) Members of Congress

Members or delegates of the United States Congress are prohibited from purchasing or benefiting from a purchase of a HUD REO Property.

(D) Former Borrowers who Defaulted on FHA-Insured Mortgages [Text was deleted in this section.]

Former Borrowers of FHA-insured Mortgages, whose Default resulted in HUD's payment of a mortgage insurance benefits claim to a Mortgagee, are prohibited from repurchasing the same Property that secured the FHA-insured Mortgage.

e. Lead-Based Paint (08/19/2024)

REO Property disposition activities are conducted in accordance with 24 CFR 35 subpart F, HUD-Owned Single Family Property.

i. Availability of Inspection Information

For all HUD REO Properties built before 1978 or for which the year of construction is unknown, buyers will have access to available lead-based paint information in the Property Condition Report (PCR), including all available copies of:

- lead-based paint inspection reports;
- risk assessment reports; and
- other records and reports pertaining to lead-based paint and/or lead-based paint hazards.

The buyer may request either paper or electronic copies of this information from the local AM.

ii. Providing Lead-Based Paint Information

The selling broker is responsible for ensuring that the following are provided to the buyer for review:

- form HUD-9545-Y, *Lead-Based Paint Disclosure Addendum to Sales Contract – Seller has pertinent records*, or form HUD-9545-Z, *Lead-Based Paint Disclosure Addendum to Sales Contract – Seller has NO pertinent records*, as applicable;
- all available lead-based paint records and reports; and
- the U.S. Environmental Protection Agency (EPA)-approved pamphlet entitled "Protect Your Family from Lead in Your Home."

iii. Other Lead-Based Paint Information Obtained after Receipt of a Sale Offer

If HUD obtains additional lead-based paint records, reports and/or information after receiving a sale offer, HUD will deliver to the selling broker:

- the additional lead-based paint records, reports and/or information on the subject Property that became available and were not posted on HUD's website for retrieval prior to bid submission; and
- a supplemental form HUD-9545-Y acknowledging receipt of any additional lead-based paint or lead-based paint hazard-related documents.

f. Sales Timeline (11/10/2026)

i. Tenant Right of First Refusal

(A) Definition

The Tenant Right of First Refusal is a tenant's ability to purchase a HUD REO Property on a non-competitive basis before it is listed for sale.

(B) Standard

HUD's AM will contact eligible tenants regarding their opportunity to purchase occupied Properties at list price under the tenant right of first refusal.

ii. Asset Control Area Program

(A) Definition

The Asset Control Area (ACA) Program is a direct sale program in which eligible local, county, or state governments or HUD-approved Nonprofit organizations may enter into a contract with HUD to purchase vacant HUD REO Properties in designated areas.

(B) Standard

HUD will sell to entities participating in the ACA Program all or a specified number of vacant HUD REO Properties acquired in designated areas as specified in the ACA agreement.

iii. National First Look Program

(A) Definition

The National First Look Program is a direct sale program in which participating Neighborhood Stabilization Program (NSP) grantees have the exclusive opportunity to purchase HUD REO Properties located in NSP areas.

(B) Standard

HUD will make available to participating NSP grantees information on HUD REO Properties for sale within NSP-designated areas. Eligible NSP buyers may purchase these HUD REO Properties at a discount of 10 percent for insurable Properties or 15 percent for uninsurable Properties off the list price, less the cost of any applicable listing and sales commission.

(1) Eligible Neighborhood Stabilization Program Grantees

The following NSP grantees are eligible to purchase HUD REO Properties at a discount:

- direct recipients of NSP funds; or
- sub-recipients (or sub-awardees) of direct NSP grantees; and
- consortium members under NSP2.

(2) First Look Purchase Period

The NSP grantee must submit an offer for a HUD REO Property within two business days after the date of the property appraisal.

Each First Look Property will remain available for purchase under the First Look Sales Method until an eligible NSP grantee buyer submits an offer to purchase the Property, or through the expiration of the two-day purchase period, whichever comes first.

(3) Confirmation of Location of Property

The NSP grantee buyer is responsible for confirming that the Property is within the boundaries of the NSP designated area. Where the boundaries of any two or more NSP areas overlap and where multiple eligible NSP grantee buyers submit offers to purchase a HUD REO Property in that overlapping area, the right to purchase the Property is granted to the eligible NSP grantee buyer that first submits an offer to purchase that Property.

(4) Use of Neighborhood Stabilization Program Funds

The NSP grantee buyer must use NSP funds, at least in part, in order to purchase a HUD REO Property under the NSP grantee buyer time frame and discount.

iv. Lottery Period

(A) Definition

The Lottery Period is a direct sale period in which Governmental Entities, HUD-approved Nonprofits, and GNND participants may submit bids for designated HUD REO Properties.

(B) Standard

Governmental Entities, HUD-approved Nonprofits, and GNND participants may submit bids equal to the list price during the seven-Day lottery period.

At the end of the lottery period, HUD will select a winning bidder at random. The AM will reflect applicable discounts in the sales contract.

(1) Good Neighbor Next Door

During the lottery period, GNND participants may submit bids for designated HUD REO Properties.

When separate bids are submitted by spouses who are both GNND participants, HUD may approve a bid from only one spouse.

(2) Lottery for Governmental Entities and HUD-Approved Nonprofits

During the lottery period, Governmental Entities and HUD-approved Nonprofits may submit bids at list price for uninsured Properties located within their approved purchase areas.

v. Exclusive Listing Period

(A) Definition

The Exclusive Listing Period is a competitive listing period in which only eligible Governmental Entities, HUD-approved Nonprofits, and Owner-Occupant Buyers may submit bids on HUD REO Properties.

(B) Standard

Governmental Entities, HUD-approved Nonprofits, and Owner-Occupant Buyers may submit bids during the exclusive listing period. HUD will choose the winning bid, which produces the greatest net return to HUD and meets HUD's terms of offering of the Property.

(1) Length of Exclusive Listing Period

For Properties marketed as "insured" or "insured with escrow," the exclusive listing period is 15 Days.

For Properties marketed as "uninsured," the exclusive listing period is five Days.

(2) Review of Bids during Exclusive Listing Period

(a) Bid Opening for "Insured" and "Insured with Escrow" HUD REO Properties

(i) Bids Received from Days 1 through 10

For Properties marketed as "insured" or "insured with escrow," the AM will open all bids received from the 1st through the 10th Day of the exclusive listing period on the next business day after the 10th Day of the exclusive listing period. The AM opening the bids will treat all bids as having been received simultaneously.

(ii) Bids Received from Days 11 through 15

If none of the bids received by the 10th Day are accepted, the AM will open and review bids received during the 11th Day up to the 15th Day daily on the next business day. If a bid is not accepted during the 15-Day exclusive listing period, the AM will extend the listing to all buyers by listing the Property in the extended listing period.

(b) Bid Opening for "Uninsured" HUD REO Properties

For Properties that are marketed as "uninsured," AMs will open and review all bids received from the 1st through the 5th Day on the next business day after the 5th Day of the exclusive listing period. The AM will treat all bids as having been received simultaneously.

If a bid is not accepted in the five-Day exclusive listing period for Properties listed as "uninsured," the AM will extend the listing to all buyers by listing the Property in the extended listing period.

(c) Bid Opening on Weekends and Federal Holidays

HUD considers bids received on Fridays, Saturdays, and Sundays in the same bid period as being received simultaneously during that period. The AM will open those bids on:

- the following Monday; or
- the next business day if Monday is a federal holiday.

HUD considers bids received on a federal holiday in the same bid period as being received on the previous Day. The AM will open those bids on the next business day.

vi. Extended Listing Period

(A) Definition

The Extended Listing Period is a competitive listing period during which all buyers may submit bids on HUD REO Properties.

(B) Standard

If a bid has not been accepted during the exclusive listing period, HUD will extend the listing to all buyers by listing the Property in the extended listing period.

All buyers, including Investors, may submit bids on HUD REO Properties during the extended listing period.

(C) Review of Bids during Extended Listing Period

The AM will open bids at the end of each business day, subject to the policies in Bid Opening on Weekends and Federal Holidays.

vii. Bulk Sales

(A) Definition

A Bulk Sale is a direct sale of five or more HUD REO Properties to eligible buyers.

(B) Standard

HUD may seek to dispose of Properties through bulk sales. HUD will advertise and sell these Properties on an all-cash, as-is basis, without warranty and without FHA-insured mortgage financing.

To be eligible for bulk sale discounts, the Governmental Entity or HUD-approved Nonprofit purchasing in bulk must close on all property sale transactions no later than 60 Days from the date the contract is ratified.

Bulk Sale to Eligible Governmental Entities and HUD-Approved Nonprofits

If a Property is marketed and remains unsold for 60 Days, HUD may elect to sell the Property to eligible Governmental Entities and HUD-approved Nonprofits as part of a bulk sale as follows:

- Properties with an appraised value greater than $100,000 will be priced at a 10 percent discount from the appraised value;
- Properties with an appraised value less than or equal to $100,000 will be priced at a 50 percent discount;
- Properties with an appraised value less than $20,000, and considered "demolition properties" will be priced at $100;
- participants purchasing 50 or more Properties will receive an additional 5 percent discount; and
- under certain conditions, local governments may purchase Properties that have been listed for 180 Days or more for $1, plus closing costs.

viii. Dollar Homes – Government Sales

(A) Definition

The Dollar Homes – Government Sales Program is a direct sales program through which eligible Governmental Entities may purchase certain HUD REO Properties for $1 each, plus closing costs.

(B) Standard

If a Property remains unsold after 180 Days, HUD will remove the Property from the market and offer it exclusively to local governments for 10 Days before returning it to the extended listing period, if no $1 bids are accepted.

Local governments may purchase for $1 each, plus closing costs, certain Properties meeting the following criteria:

- the Property is not under a contract for sale;
- the Property has been offered to the public and marketed for sale for at least 180 Days;
- the Property is within the jurisdiction of the local government;

- the Property is uninsured; and
- the current as-is Market Value of the Property is $25,000 or less.

(C) Commissions and Costs

(1) Commissions

Listing brokers will not receive a commission for a Property sold under the Dollar Homes – Government Sales Program.

HUD will not pay a selling agent commission for Properties sold under the Dollar Homes – Government Sales Program; buyers may submit a bid directly without the service of a selling broker.

(2) Local Government Liens

In those instances where a local government has placed liens against the Properties and fines have been assessed, the local government must remove these liens at no cost to HUD in an effort to facilitate the sale.

(D) Dollar Homes Closing Costs

Buyers will be required to pay closing costs involved with each Dollar Homes - Government Sales Program property sale transaction.

(E) Partnering with HUD-Approved Nonprofits

(1) Standard

Local Governmental Entities may partner with local nonprofits to purchase Properties under the Dollar Homes – Government Sales Program for local housing and community development initiatives.

Governmental Entities may only purchase eligible HUD Properties within their jurisdiction and must:

- identify the intended disposition strategy or strategies and clear public purpose goals and objectives consistent with supporting local housing or community development initiatives, including rehabilitation and resale to first time homebuyers or Low- to Moderate-Income buyers, that it will pursue with Properties purchased through this program;
- affirm that all profits from resale of these Dollar Homes will go to support local housing or community development initiatives; and
- identify what specific local housing or community development programs or uses these profits will support.

(2) Annual Reporting

Governmental Entities must provide information pertaining to the purchase and subsequent resale of Properties purchased under the Dollar Homes – Government Sales Program in its annual report to HUD's Nonprofit Data Management System (NPDMS).

The report must include information on:

- the ultimate Owner-Occupant Buyer;
- the amount of profit realized on the final sale; and
- the specific local housing/community development programs or uses these profits were used to support.

(3) Compliance with Program Requirements

Failure of a Governmental Entity to comply with any of the Dollar Homes – Government Sales Program requirements will result in disqualification from participation in the program.

(4) No Direct Purchase by Nonprofits

Nonprofit organizations are not permitted to directly purchase Properties under this sales program on their own behalf. HUD will accept a sales contract from nonprofits only if a Governmental Entity identifies in its intended disposition strategy that the nonprofit will act as its agent to purchase these Properties.

(5) Demolition Consideration

(a) Request to HUD

A local government may recommend to the AM the demolition of any Property that is currently available for purchase by that entity meeting the Dollar Homes – Government Sales standard. HUD will consider the following criteria in its decision:

- whether HUD's last listed price, plus the cost of rehabilitating the Property to meet HUD's Minimum Property Standards (MPS) is more than 130 percent of the after-rehabilitation value;
- whether the cost of demolition exceeds the cost of rehabilitating the Property to meet MPS; and
- whether the Property is listed on or eligible for the National Register of Historic Places or located in a historic district. If it is, a Section 106 consultation with the State Historic Preservation Officer and other interested parties is required before HUD approves the Property for demolition.

(b) Cost of Demolition

If HUD approves the Property for demolition, HUD will pay for the demolition and clearing of the debris.

(c) Sale after Demolition

Following demolition, HUD will list the land for sale to the general public for 10 Days at its Fair Market Value (FMV).

If no acceptable offers are received from the general public, HUD will offer the land to local governments for $1 for 10 Days.

If the land is not purchased by local governments, HUD will relist the Property to all classes of bidders until the Property is sold.

ix. HUD Rescission of Listing

HUD, at its discretion, may remove a listing or cancel a sales contract and may return all or a portion of a buyer's earnest money deposit if:

- HUD has not acquired the Property;
- HUD is unable or unwilling to remove valid objections to the title prior to closing; or
- HUD determines that the buyer is not an acceptable Borrower.

g. Bid Submission (09/30/2016)

i. Use of HUD Home Store

Selling brokers, HUD-approved Nonprofits, and Governmental Entities must submit bids for HUD REO Properties electronically through HUD Home Store.

In order to submit bids through HUD Home Store, selling brokers, HUD-approved Nonprofits, and Governmental Entities must:

- have applied for and been issued a Name and Address Identification (NAID); and
- be registered on HUD Home Store or successor site.

ii. Good Neighbor Next Door Bid and Eligibility Documentation

The GNND participant must submit with its bid:

- form HUD-9549, *Good Neighbor Next Door Sales Program Personal Information Questionnaire*;
- form HUD-9549-E, *Employer Verification of Participant Employment*; and
- one of the following pre-qualification questionnaires:
  - form HUD-9549-A, *Good Neighbor Next Door Sales Program - Law Enforcement Officer*;
  - form HUD-9549-B, *Good Neighbor Next Door Sales Program - Teacher*; or

- form HUD-9549-C, *Good Neighbor Next Door Sales Program - Firefighter/Emergency Medical Technician*.

iii. Back-up Bids

(A) Definition

A Back-up Bid is an acceptable bid for a HUD REO Property, held by HUD, should the winning bid fail to close.

(B) Standard

At the time of bidding, the selling broker may elect to have their bid held as a back-up bid. Should the winning bidder's sale fail to close, HUD may offer the Property to back-up bidders before relisting the Property.

HUD will allow at least one back-up bidder and, in the case of GNND, two back-up bidders.

h. Bid Acceptance During Competitive Sales Periods (09/30/2016)

i. Standard

For Properties sold in competitive sales, HUD will accept the bid that produces the greatest net return to HUD and meets all the terms and conditions pertaining to HUD's offering, with priority given to Owner-Occupant Buyers for Properties being offered with insured Mortgages.

For Properties marketed as uninsurable, HUD will give priority to Governmental Entities and HUD-approved Nonprofits before Owner-Occupant Buyers.

The net return is calculated by subtracting from the bid price the dollar amounts for financing and closing costs, as stated on Line 5 of form HUD-9548, *Sales Contract Property Disposition Program*, and real estate sales commissions to be paid by HUD.

(A) Multiple Bids

Selling brokers may submit an unlimited number of bids on a Property, provided that each bid is from a different buyer. If a buyer submits multiple bids on the same Property, HUD will only consider the bid producing the highest net return to HUD.

If a prospective Owner-Occupant Buyer submits a bid on more than one Property, the bid that produces the greatest net return to HUD will be accepted and all other bids from that buyer will be eliminated from consideration. However, if the prospective Owner-Occupant Buyer has submitted the only acceptable bid on another Property, then that bid must be accepted and all other bids from that buyer on any other Properties will be eliminated from consideration.

(B) Identical Net Offer

Where two or more bids result in identical net offers, HUD will give preference to the Owner-Occupant Buyer.

If the identical bids were submitted by two or more Owner-Occupant Buyers, or by two or more Investor Buyers, HUD will choose the winning bid by lottery.

ii. Counteroffers

If all bids received are unacceptable, HUD may, at its discretion, offer counteroffers to one or more bidders via P260, and those bidders may resubmit bids during a specified period of time.

If HUD elects to counteroffer, HUD will accept the highest acceptable net bid received within the specified time period.

i. Selection of Winning Bid (01/02/2020)

i. Notification by HUD of Winning Bid

HUD will alert the buyer or selling broker if they are the winning bidder.

ii. Submission of Sales Documents

Once HUD has notified the buyer or selling broker that they are the winning bidder, the buyer or selling broker must send the following to the AM within two business days:

- a fully completed form HUD-9548, signed by the buyer and selling broker;
- a pre-qualification letter, certification of cash funds, or other proof of funds; and
- all required addenda, if applicable, including:
  - a Purchase Addendum for Individual Owner-Occupant Buyers or an Exclusive Listing Period Purchase Addendum for Governmental Entities and HUD-Approved Nonprofits;
  - a forfeiture of earnest money deposit addendum;
  - a Buyer Select Closing Agent Addendum;
  - closing instructions and certification;
  - form HUD-9548-B, *Discount Sales Addendum*;
  - all copies of form HUD-9545-Y and/or form HUD-9545-Z providing the original Addendum and any Supplemental Addenda;
  - form HUD-92564-CN, *For Your Protection: Get a Home Inspection*;
  - Good Neighbor Next Door addenda;
  - a flood zone property addendum; and
  - any disclosures required by state or local law.

The selling broker must complete Line 3 of form HUD-9548 to identify the Closing Agent as the party who will be holding the earnest money deposit, unless otherwise instructed by the AM.

iii. Earnest Money Deposit

(A) Definition

The Earnest Money Deposit is a buyer's deposit toward the purchase of real estate to demonstrate that they are serious about wanting to complete the purchase.

(B) Standard

The buyer and selling broker must sign the earnest money forfeiture agreement. The selling broker must submit the earnest money deposit with the completed form HUD-9548, for all sales other than ACA sales, to the AM within two business days of being notified that their buyer is the winning bidder, unless otherwise instructed by the AM, and the AM will forward the deposit to the Closing Agent.

(C) Form of Earnest Money Deposit

The earnest money deposit must be in the form of a cashier's check, certified check, or money order with no termination date or cancellation provision, payable to the Closing Agent or to another entity as designated by HUD.

Earnest Money Deposit Amounts

The earnest money deposit amount is as follows:

- for Properties with a sales price of $50,000 or less, the earnest money deposit is $500;
- for Properties with a sales price greater than $50,000, the earnest money deposit is between $500 and $2,000, as determined by HUD;
- for vacant lots, the earnest money deposit is 50 percent of the list price; and
- for Properties to be purchased under the GNND Sales Program, the earnest money deposit is 1 percent of the list price, but no less than $500 and no more than $2,000.

The buyer or selling broker may contact the AM for the earnest money deposit amount for a specific Property.

(D) Disposition of Earnest Money Deposits When the Transaction Fails to Close

Should the sales transaction fail to close as scheduled, HUD may consider the earnest money deposit forfeited or may return all or a portion of the earnest money deposit.

(1) Investor Buyer

Forfeiture of Entire Earnest Money Deposit

Subject to state law, the Investor Buyer forfeits 100 percent of the earnest money deposit, unless HUD cancels the sales contract due to HUD's inability to close the transaction for any reason.

(2) Owner-Occupant Buyers

(a) Return of Entire Earnest Money Deposit

Subject to state law, HUD will return 100 percent of an Owner-Occupant Buyer's earnest money deposit in the following circumstances:

- there has been a death in the immediate family (contract holder, spouse, or children living in the same household);
- there has been a recent serious illness in the immediate family that has resulted in significant medical expenses or substantial loss of income, thus adversely affecting the buyer's financial ability to close the sale;
- there has been a loss of job by one of the primary wage earners, or substantial loss of income through no fault of the buyer;
- on an insured sale, HUD determines that the buyer is not an acceptable Borrower;
- on an uninsured sale, the buyer was pre-approved for FHA-insured mortgage financing in an appropriate amount by a recognized Mortgagee but, despite good faith efforts, was ultimately unable to secure mortgage financing;
- within 30 Days of the contract ratification date, the buyer has provided to the AM written documentation from a lender supporting the buyer's inability to secure financing;
- HUD cancels the contract due to the documented presence and/or condition of lead-based paint and/or lead-based paint hazards;
- pursuant to the terms of the VA Amendatory Clause for purchasers using VA financing; or
- other circumstances evidencing equally good cause, as determined by HUD.

In order to receive any part of the earnest money deposit, the Owner-Occupant Buyer must submit documentation to the AM within allowed time limits evidencing the circumstances related to the transaction's failure to close.

(b) Forfeiture of Entire Earnest Money Deposit

Subject to state law, the buyer forfeits 100 percent of the earnest money deposit in the following circumstances:

- the buyer does not submit documentation supporting their reason for the return of any part of the earnest money deposit within 30 Days, or such other time allowed by the AM in writing, following contract cancellation; or
- the buyer's submitted documentation fails to support an acceptable cause for the buyer's failure to close.

(3) Vacant Lots

Subject to state law, buyers of vacant lots will be considered Investor Buyers for the purpose of earnest money deposit disposition.

(E) Failure to Abide by HUD's Earnest Money Policy

Listing brokers who fail to comply with HUD's instructions for the collection and forwarding of the earnest money deposit to the AM (or other party as instructed by the AM) may be subject to such action including:

- Limited Denial of Participation (LDP);
- notification of the state real estate commission or regulatory body;
- referral to the appropriate office(s) for enforcement review; and/or
- suspension or termination of the Broker's NAID.

iv. Failure to Submit Sales Documents

Should the winning bidder fail to submit a ratified sales contract and accompanying documentation and deposits within allowed time limits, the AM may offer the Property to back-up bidders before relisting the Property.

v. Electronic Signatures

The use of electronic signatures is voluntary. HUD will permit the use of electronic signatures conducted in accordance with the Policy on Use of Electronic Signatures on the HUD REO form HUD-9548 and related addenda requiring signatures, unless otherwise prohibited by law.

j. Inspection Contingency (11/10/2026)

i. Standard

After HUD ratifies the sales contract, the buyer has 15 Days to:

- access the Property to conduct any inspections, tests, or risk assessments at their expense; and
- for Properties constructed before 1978, review all available records and reports relating to lead-based paint or lead-based paint hazards in the Property.

If the HUD REO appraisal was completed without the utilities being activated and the buyer is using FHA-insured financing, the Mortgagee or buyer must complete the

systems check while the utilities are activated. The Mortgagee or buyer may contact the Field Service Manager (FSM) to request activation of utilities; HUD may charge a fee for this service.

ii. Repairs Necessary to Comply with Mortgage Lender or State, Tribal, or Local Law Requirements

HUD sells REO Properties as-is. When necessary to comply with mortgage lender requirements or state, tribal, or local law, a buyer may submit a request to the AM for repairs. The buyer must include with its request:

- documentation reflecting that such repairs are necessary to comply with lender or state or local requirements; and
- a copy of a home inspection report identifying the property condition at issue.

HUD will review requests on a case-by-case basis and, at its sole discretion, may make the requested repairs, if approved.

iii. Withdrawal from Sales Contract

Before the expiration of the inspection contingency period, the buyer may terminate their obligation to purchase the house and request a refund of the earnest money deposit by providing to the AM:

- written notice of its withdrawal from the sales contract; and
- a copy of a home inspection report identifying serious problems or conditions with the Property that were not previously disclosed or corrected, or documentation of the presence and/or condition of lead-based paint or lead-based paint hazards.

k. Closing (11/07/2023)

i. Closing Agents

(A) Definition

A Closing Agent is the entity responsible for conducting the closing of a HUD REO property sales transaction, including submitting closing packages, and wiring sales proceeds to the U.S. Treasury.

(B) Standard

The buyer must select a Closing Agent who meets HUD's Closing Agent Requirements.

(1) Antidiscrimination Laws

Closing Agents and their employees, or persons or entities otherwise authorized to act for the Closing Agent, must:

- comply with the Fair Housing Act, 42 U.S.C. §§ 3601-3619, and the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f;
- not discriminate on the basis of race, color, religion, sex, age, national origin, familial status, disability, marital status, receipt of public assistance, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of Property; and
- instruct their staffs in the policies of nondiscrimination and all applicable local, state, and federal fair housing and nondiscrimination laws.

(2) No Conflicts of Interest

A Closing Agent must not participate in a closing where the Closing Agent's spouse, children, or business associates have a financial interest in the Property. Financial interest includes having an equity, creditor, mortgage lender, or debtor interest in any corporation, trust, or partnership with a financial interest in the Property.

(C) Required Documentation

The buyer and selling broker must identify the selected Closing Agent as follows:

- identify the Closing Agent on Line 9 of form HUD-9548; and
- submit the Closing Agent designation form with the sales contract package. The form, at a minimum, must include the following:
  - the name of the Closing Agent;
  - the full address of the Closing Agent; and
  - the telephone number, email address, and contact person.

The Closing Agent must sign and certify in the Closing Instructions and Certification that they meet HUD's requirements and will adhere to HUD's Closing Instructions.

(D) Closing Agent Fee

The buyer is primarily responsible for any and all Closing Agent and closing fees, up to the maximum allowed per state law and regulatory requirements.

The buyer may apply amounts listed on Line 5 of form HUD-9548 for payment of closing fees.

ii. Time Frame for Closing

The time frame for closing is specified in Line 9 of form HUD-9548. The Closing Agent must schedule a firm Closing Date within the time frame set by the AM. The AM will identify the time frame for closing in Line 9 of form HUD-9548 as follows:

- for cash sales, within 30 Days of contract ratification;

- for sales involving mortgage financing, within 45 Days of contract ratification; and
- for sales involving a 203(k) product, within 60 Days of contract ratification.

(A) Requests for Extensions

If scheduled Closing Dates cannot be met, the selling broker or buyer may request extensions of the closing time from the AM before the expiration of the sales contract by:

- submitting the request for an extension in writing; and
- if applicable, including an extension fee for the full amount of the requested 15-Day extension, in the form of certified funds payable to HUD.

The AM will grant extensions in 15-Day increments on a case-by-case basis when extenuating circumstances preclude the buyer from closing as scheduled.

(1) Fees for Extensions

The AM may assess a daily fee for initial or repeat sales contract extensions as follows:

- for a sales price of $25,000 or less, the extension fee is $10 per Day;
- for a sales price of $25,001 to $50,000, the extension fee is a minimum of $10 per Day and a maximum of $15 per Day; and
- for a sales price over $50,000, the extension fee is a minimum of $10 per Day with a maximum of $25 per Day.

(2) No Cost Extensions

The AM will grant extensions at no cost to the buyer if the delay is due to HUD, HUD's contractors, or a title defect.

The AM will also grant an initial extension to Owner-Occupant Buyers who demonstrate that:

- the buyer made a proper and timely loan application;
- the buyer is not responsible for the delay in closing; and
- mortgage approval is imminent.

If approved, the AM will grant a 30-Day extension for Section 203(k) transactions or a 15-Day extension for all other transactions.

(3) Application of Extension Fee

If the sale closes before the expiration of the extension, the extension fee will be applied to the amount due from the buyer and the buyer will be credited with any unused portion of the fee, computed on a daily basis.

(B) Notification from HUD on Extension

The AM will notify the selling broker of the approval or denial of the extension request. The selling broker must place a copy of the approval or denial in the property file.

(C) Closing Time Frame Lapsed

When closing does not occur as scheduled and the buyer has not requested and received an extension of time to close, the AM will cancel the sales contract.

iii. Commissions

(A) Standard

For sales to buyers other than Governmental Entities or HUD-approved Nonprofits, HUD will pay commission to listing brokers and selling brokers as follows, based on averages for the area and depending on the level of service provided to HUD and on value and market conditions. The selling broker may contact the listing broker for transaction-specific commission amounts.

(1) Commission Amounts

(a) Minimum Commission

HUD will pay commissions not less than:

- $200 each for the listing broker and selling broker for sales of vacant lots; and
- $500 each for the listing broker and selling broker for all other sales.

(b) Maximum Commission

For sales of vacant lots, HUD will pay commissions totaling not more than 10 percent of the bid price.

For all other sales, HUD will pay commissions totaling not more than 6 percent of the bid price.

(c) Hard-to-Sell Properties

For sales of Properties designated as hard-to-sell, HUD will pay up to a total sales commission of $2,000, to be split between the listing broker and selling broker.

(2) Split of Sales Commission

Listing brokers and selling brokers will split sales commissions. The selling broker's acceptance of a lower commission does not affect the amount the listing broker will receive.

(3) Calculating Commission on Discounted Sales

For discounted sales to buyers other than Governmental Entities or HUD-approved Nonprofits, the listing broker and selling broker may calculate commission based on the bid price before any discounts are deducted.

(B) Required Documentation

The listing broker and selling broker must enter on form HUD-9548 the actual commissions to be paid.

iv. Closing Costs

(A) Costs Automatically Paid by HUD

HUD will pay the following closing costs:

- proration of property taxes and any special assessments such as Homeowners' Association (HOA) fees and utility bills;
- condominium or HOA transfer fee, if applicable;
- the cost to provide condominium documents to the buyer;
- the repair escrow inspection fee of $200, if applicable;
- recording fees and charges for the deed;
- the overnight mailing fee for the final Closing Disclosure or similar legal document, signed by the buyers and the Closing Agent, and sent to the AM contractor; and
- state and local transfer taxes that are reasonable and customary in the jurisdiction where the Property is located.

For closing costs claimed on discount sales to Governmental Entities and HUD-approved Nonprofits, HUD will deduct any closing costs paid from the total discount amount.

(B) Other Financing and Closing Costs for Properties in Competitive Sales

(1) Standard

For Properties sold in competitive sales and not in GNND transactions, HUD will pay the buyer's actual financing and closing costs as requested on Line 5 of form HUD-9548 in an amount up to 3 percent of the Property's gross purchase price, provided that the costs are reasonable and customary in the jurisdiction where the Property is located. The gross purchase price is the bid price before any

subtractions requested by the buyer for financing and closing costs, and the broker's sales commission.

No assistance for financing and loan closing costs or for broker's sales commission will be provided to Investor Buyers.

HUD will retain any Line 5 funds not used at closing.

(2) Required Documentation

The buyer must identify on Line 5 of form HUD-9548 their requested financing and closing costs.

v. Closing Process

(A) Closing Agent Assignments

The AM will provide the Closing Agent with the following items:

- fully ratified sales contract and addenda;
- title evidence (when available);
- wire instructions;
- pre-closing and post-closing instructions;
- HOA documents, if applicable;
- all outstanding property bills; and
- any other documentation deemed necessary by the COR.

The AM will provide these documents within two business days of the AM's ratification of the sales contract, the issuance of the HUD-issued Title Identification (ID) Number, or, for ACA sales, receipt of the fully executed Notice of Acquisition from the ACA participant.

(B) Pre-closing Package

(1) Definition

The Pre-Closing package is the documentation, including the Settlement, deeds, and supporting documentation, of a HUD REO Property Sale that is submitted before closing to the AM for review.

(2) Standard

The Closing Agent must upload into P260 and send to the AM a pre-closing package no later than five business days before closing.

(a) Closing Disclosure

The Closing Agent must accurately prepare the preliminary Closing Disclosure or similar legal document and provide it to the AM for their review and approval.

(b) Deed

The Closing Agent must prepare a special warranty or grant deed, where applicable, and provide the deed to the AM for their review and execution.

(3) Required Documentation

The pre-closing package must include the following documents:

- the Closing Disclosure or similar legal document and signature affidavits:
  - If the buyer has obtained new FHA financing, the Closing Agent must ensure that the FHA case number is listed on Line 8; or
  - If the buyer has not obtained new FHA financing, the Closing Agent must ensure that the previous FHA case number associated with that Property is listed in the "Seller Name" block of the Closing Disclosure or similar legal document;
- the deed prepared by Closing Agent;
- supporting documentation of any charges to HUD on the Closing Disclosure or similar legal document, such as past due bills for utilities or HOAs;
- recent tax documentation from the county;
- mortgagee documents itemizing all costs to be paid by HUD;
- copies of the extension fee payment, if applicable;
- the seller's affidavit, if applicable;
- Closing Agent contact information; and
- a signed copy of the Closing Instructions.

(C) HUD Review of Pre-closing Package

The Closing Agent must ensure that sales documents are prepared accurately and promptly remitted to HUD's AM contractor for review.

The AM will review the pre-closing package prepared by the Closing Agent. If approved, the AM will return the Closing Disclosure or similar legal document and overnight the original, signed deed to the Closing Agent before closing.

(D) Notification to HUD of Closing

The Closing Agent must notify the AM on the same Day as the closing of the transaction.

(E) Deposit of Sales Proceeds

No later than one business day after closing, the Closing Agent must deposit the sales proceeds and initiate the request for wire transfer of the full amount of sales proceeds due HUD. The Closing Agent must include the FHA case number on the wire transfer request.

(F) Delivery of Deed for Recording

No later than one business day after closing, the Closing Agent must deliver the deed for recording and must notify the taxing authority and HOA, if applicable, that title has changed to a new owner.

(G) Final Closing Package

(1) Definition

The Final Closing Package is the documentation, including the final Closing Disclosure or similar legal document and other supporting documentation, which is provided to the AM after a HUD REO Property sale closing.

(2) Standard

Within two business days of closing, the Closing Agent must upload into P260 and mail to the AM a Final Closing Package including all of the following:

- all pages of the Closing Instructions and certifications;
- the final Closing Disclosure or similar legal document and all signed certifications;
- evidence the deed was delivered for recordation or a recorded copy;
- a copy of the wire confirmation proceeds transfer to the U.S. Treasury;
- a copy of form SAMS-1103, *Request to Wire Transfer Funds*;
- a copy of all applicable invoices or receipts of Disbursements; and
- a copy of the disbursement log accounting for all incoming and outgoing funds related to the transaction.

(3) Good Neighbor Next Door Additions to Final Closing Package

No later than five business days after closing, the Closing Agent must also send to the AM the following:

- the original Note;
- a copy of the Mortgage with evidence that it was delivered for recording; and
- a copy of the recorded Mortgage, when available.

(H) Canceled Closings

To cancel the sales contract after ratification by HUD, the buyer or selling broker must contact the AM and complete any required cancellation documentation provided by the AM.

The Closing Agent must send to the AM the signed deed and any extension fees in their possession.

The AM will ensure the return of the signed deed and forfeited extension fees, if any, to HUD.

The AM may offer the Property to back-up bidders before relisting the Property.

C. TITLE I CLAIMS

1. Title I Claims for Property Improvement

In order to receive insurance benefits, Lenders must comply with the claim procedures outlined below.

a. Claim Filing Deadline (05/09/2022)

A property improvement claim must be filed no later than nine months after the date of Default. The date of Default for filing a claim is 30 Days after the oldest unpaid Loan Payment.

Exceptions to the claim filing deadline include:

- a bankruptcy filing or any other litigation related to the Loan, if initiated prior to the end of the claim filing deadline. The claim must be filed within three months of the end of the litigation;
- management control of the Lender is assumed by a federal or state agency;
- the Borrower experiences a financial hardship directly attributable to a major disaster declared by the President;
- the Lender can show clear evidence the delay in claim filing was in the interest of HUD; and
- a Borrower is in "military service" as defined in the most recent available SCRA, as adopted by HUD. Any period of military service after the date of Default is excluded in computing the maximum time period for filing an insurance claim.

b. Claim Documentation (04/10/2025)

The Lender must submit the claim package for insurance benefits using form HUD-637, *Title I Claim for Loss*. The form must be signed by an authorized officer of the Lender under applicable criminal and civil penalties for fraud and misrepresentation.

The claim package must include all applicable documents listed on form HUD-637.

Claims must be submitted to HUD's FOC.

i. Standard

The claim submission must contain the original signed documents for:

- Loan Servicing Agreement, if applicable;
- the Note;
- the security instrument;
- assignments;
- assumption agreements;
- releases of liability for repayment of the Loan; and
- any related documents and forms.

Additional documents must be provided to enable HUD to (1) evaluate the Lender's origination, underwriting, and servicing of the Loan; (2) calculate the claim amount; or (3) continue effectively servicing the Loan.

Electronic signatures are permitted provided they are in compliance with all requirements of the Electronic Signatures in Global and National Commerce (ESIGN) Act, 15 U.S.C. § 7001 et seq. and in accordance with HUD's policy on electronic signatures.

ii. Missing Document Statement

For missing required documents, the Lender must include in the claim file a Missing Document Statement. The statement must be signed by an authorized official of the Lender and include an explanation as to why the original document is not available. In addition, the statement must also attest to the following:

- The copy is true and correct, if applicable.
- The obligation is valid and enforceable.
- The obligation has not been satisfied, paid or canceled.
- The documentation provided is sufficient to enforce the obligation in the jurisdiction.
- The Loan will be repurchased, at any time, if HUD is unable to enforce the obligation.

iii. Bankruptcy and Probate

If a Borrower has declared bankruptcy or is deceased, the claim file must contain all official notices, copies of any proof of claim or other documents filed by the Lender to protect its rights, and any other relevant documentation.

iv. Assignment of Lenders' Rights to the United States

Upon filing the insurance claim, the Lender must assign its entire interest in the loan Note (or in a Judgment in lieu of the Note), in any security held, and in any claim filed in probate, bankruptcy or insolvency proceedings, to the United States. If the security interest has been assigned to the United States, the assignment must be recorded prior to filing the insurance claim, unless HUD determines that recordation by the Lender is impractical.

(A) Form of Assignment

The assignment of the loan Note must be completed in the following form:

All rights, title, and interest of the undersigned is hereby assigned (without warranty, except that the loan qualifies for insurance) to the United States of America (HUD).

(Financial Institution) _____

By: _____

Title: _____

Date: _____

The assignment of other documents must be in a form that meets the requirements of the local jurisdiction or recording authority.

(B) Valid and Enforceable When Assigned

The loan obligation must be valid and enforceable against the Borrower when assigned to the United States. If HUD has reason to believe that an obligation is not valid or enforceable, the claim may be denied (or HUD may demand repurchase if a claim is already paid). The Lender may resubmit the claim after obtaining a valid and enforceable Judgment for the unpaid balance of the Loan.

(C) Assignment Delay at a Recorder's Office

The Lender must wait until the recorded assignment is returned from the recorder's office before sending the claim package to HUD. If there is a delay in receiving the original recorded lien assignment back from the recorder's office, the Lender must not delay its claim submission to HUD past the Claim Filing Deadline. In this situation, the Lender must send the claim package to HUD with the following documentation in lieu of the original, recorded assignment:

- a copy of the executed, unrecorded assignment;
- reasonable evidence that the assignment was sent for recording before the expiration of the claim filing deadline. Examples of evidence include a check to pay the local recorder, a dated receipt from the recorder, or proof of mailing (i.e., stamped certified mail receipt); and
- a statement signed by an authorized officer of the Lender stating:
  - The copy of the executed assignment is a true and exact copy of what was sent to the recorder.
  - The recorded copy of the lien assignment could not be obtained before the end of the claim filing period due to delays in the recorder's office.
  - The Lender will promptly forward the lien assignment to HUD upon receipt of the recorded original.
  - The Lender will repurchase the Loan at any time if this delay results in harm to HUD or if the Lender fails to send the recorded lien assignment to HUD in a timely fashion.

When the original lien assignment is received from the recorder's office, it should be identified by the FHA case number (and by the claim number if available) and sent to the FOC.

c. Calculation of Insurance Claim Payment (12/21/2022)

i. Reserve Account

Reserve Account refers to 10 percent of the amount disbursed, advanced, or expended by the Lender in originating or purchasing eligible Loans registered for insurance under Title I, less the amount of all insurance claims approved for payment in connection with losses on such Loans.

The claim payment is calculated as 90 percent of the valid claim amount, not to exceed the amount remaining in a Lender's insurance reserve account.

A valid claim includes:

- the unpaid loan obligation;
- interest on the unpaid loan obligation;
- uncollected court costs;
- attorney's fees;
- expenses for recording assignments; and
- the cost of force-placed Flood Insurance where required.

ii. Unpaid Amount of the Loan Obligation

(A) Definition

The Unpaid Amount of the Loan Obligation refers to the net unpaid principal and the uncollected interest earned to the date of Default, calculated according to the Actuarial Method.

Actuarial Method refers to the method of allocating payments made on a Loan between the outstanding balance of the principal amount borrowed and the interest due on a loan obligation, under which a payment is applied first to the accrued interest, and any remainder is subtracted from, or any deficiency is added to, the unpaid balance of the obligation.

(B) Standard

If the Lender obtained HUD's prior approval to proceed against the loan security and later files a claim for any remaining loss, the unpaid amount of the Title I loan obligation must be reduced by the proceeds received from the Property's sales or disposition, after deducting the following:

- the balances due on any obligations senior to the Title I obligation;
- customary and reasonable expenses for foreclosure and disposition, as determined by HUD;

- the interest on the unpaid amount of the loan obligation from the date of Default to the date of the claim's initial submission for payment plus 15 Days, calculated at the rate of 7 percent per annum. Interest will not be paid for any period greater than nine months from the date of Default;
- uncollected court costs, including fees paid for issuing, serving, and filing a summons;
- attorney's fees on an hourly or other basis for time actually expended and billed, not to exceed $500; and
- expenses for recording an assignment of security to the United States, if applicable.

d. Claim Filing Supplies (05/09/2022)

i. Claim Folders

Lenders must obtain supplies of form HUD-3432, *Title I Claim Folder*, from the HUD Direct Distribution Center. Lenders may order the folders from the Direct Distribution Center by phone at (800) 767-7468, or email OnDemand.Mail@hud.gov.

ii. Packaging and Mailing the Claim

Form HUD-637 has a checklist of the most common documents to accompany the claim. Each claim must be submitted in a green Title I Claim Folder (form HUD-3432) to HUD's FOC. HUD's FOC can provide these folders as well as labeled yellow file tab inserts to help sort the documentation.

iii. Premiums Branch (Title I Insurance Processing)

The Lender must submit the following Title I claim-related requests to the Title I Insurance Processing Branch:

- initial Title I claim submissions;
- resubmittals of claims;
- appeals of claim denials; and
- waiver requests.

For assistance or questions regarding claims, Lenders may contact the Title I Insurance Processing Branch in the following ways:

- call the Title I Insurance Processing Help Line at (800) 669-5152 extension 2832;
- send a fax to (202) 485-9035;
- send an email to title_one_help@hud.gov; or
- in writing to:

U.S. Department of Housing and Urban Development
Financial Operations Center
Attention: Title I Insurance Processing Branch
52 Corporate Circle
Albany, New York 12203

e. Method and Notification of Payment (05/09/2022)

The Debt Collection Improvement Act directs federal agencies to disburse funds via Electronic Funds Transfer (EFT).

i. Electronic Funds Transfer

In order to receive claim payments, the Lender must have completed the SF 3881 form, *ACH Vendor/Miscellaneous Payment Enrollment*.

To wire payments to a Lender's bank account, HUD must receive a completed SF 3881 form. Processing this form takes several weeks as does testing through the Federal Reserve System. It is advisable for a Lender to have the form on file with HUD before filing a claim. The form can be obtained from the FOC. After completing the SF 3881 form, Lenders must mail it to the address on the form.

ii. Notification and Identification of Claim Payment

Upon claim payment, a record will be attached to each EFT payment that includes the FHA case number and the Lender's loan number reported to HUD when the Loan was first reported for insurance. Details of the claim status and claim payment of a Loan can be found online using FHAC.

iii. Lender Responsibilities after Insurance Claim Payment

The Lender must not attempt to collect money from the Borrower, including the coinsurance loss, after a claim is paid. Since the loan Note is assigned to the United States, the Lender has no basis from which to make demand upon a Borrower.

After claim payment, the Lender must refer any legal notices, inquiries, correspondence, or payment to HUD's FOC.

f. Supplemental Claim (05/09/2022)

i. Definition

A Supplemental Insurance Claim refers to a claim request for additional reimbursement. A supplemental claim may be filed for reimbursable costs where the receipts were unavailable or not included with the initial claim.

ii. Standard

A supplemental claim must be filed within six months after the date of the payment on the initial claim.

iii. Required Documentation

The Lender must submit a supplemental claim on form HUD-637. Lenders must provide an explanation for additional reimbursement, along with supporting documentation and receipts.

A fee of $100 payable to HUD must accompany each supplemental claim. The $100 will be returned to the Lender if the supplemental claim was due to HUD error.

g. Terminating Title I Premium Billing (05/09/2022)

Title I Lenders are obligated to pay the loan insurance premium on any insured Loan until it matures, or until the Loan is prepaid in full or an insurance claim is filed. This obligation continues even if:

- the Lender has exhausted its insurance coverage reserve account, provided that the Loan is current; and/or
- the Lender decides to terminate its Title I Contract of Insurance.

Terminated Title I Lenders may not originate new Title I Loans but remain obligated to pay FHA insurance premiums and to perform obligations under the Contract of Insurance for the existing Title I Loans it holds.

h. Abbreviated Claim (05/09/2022)

i. Standard

The abbreviated filing process allows insurance termination on Defaulted Loans when there is no expectation of claim payment. The Lender may submit an abbreviated claim to terminate premium billing when:

- the Loan is in Default and no Reserves are left; or
- the claim would not be payable for other reasons.

ii. Required Documentation

The Lender must submit:

- form HUD-637, Part II with items 1–10 and 15–18 completed. The Lender, or an agent of the Lender with proper Power of Attorney (POA), must sign form HUD-637, with their full name and title included in box 16;
- a certification stating that the claim is being filed to stop premium charges, no claim payment is expected and no claim resubmission will occur. The Lender, or an agent of the Lender with proper POA, must sign the certification. Please also indicate that there are no Reserves, or why no claim payment is expected;
- copies of the Notices of Default and Acceleration. In the event that the Lender could not issue the notice due to bankruptcy, include documentation of the bankruptcy filing;

- documentation verifying that the Lender has updated credit bureau reporting to show Default has occurred; and
- a copy of the Note and security instrument (where applicable). No assignment to HUD is required. If the Lender does not have a copy of the Note, the Lender may send HUD a Missing Document Statement for the Note along with the copy of the security instrument, if the security instrument details the terms of the Loan.

Lenders must mail the abbreviated claim package to the FOC. To expedite processing, the Lender must use an attention line of "Abbreviated Claim Filing."

iii. HUD Review of Abbreviated Claim

HUD will review the documentation to ensure that the Loan is a Title I Loan previously reported for insurance and that a Default has occurred. Once confirmed, HUD will accept the abbreviated claim filing and deny the claim benefits since it is not payable.

This claim denial will stop subsequent insurance charges from being billed. Lenders can confirm termination of billing by reviewing their next monthly Title I billing statement. These Loans will appear in the "RENEWAL CANCELLATION" section of the bill.

i. Denial of Insurance Claims (05/09/2022)

HUD may deny a claim for insurance in whole or in part based upon a violation of the regulations.

i. Invalid Debt

If the enforceability of the lien can be challenged, the Lender can obtain a Judgment against the Borrower and assign the Judgment to HUD. For example, improper wording of or method of mailing a legal notice may call into question whether a deficiency debt is valid. Acquiring a Judgment will prove the validity of the debt.

ii. Missing or Incomplete Work Description

HUD may deny the claim if the supporting documentation regarding the property improvements does not include sufficient detail to confirm that the loan proceeds were used solely for property improvements (and eligible fees/charges), that the costs were reasonable, and that all improvements were eligible. HUD will review the Completion Certificate, the inspection report, and any lender noncompliance reports in addition to the contract, Work Write-Up, or other written description of the proposed improvements. HUD may pay a claim despite a poor work description if the inspection confirms that 100 percent of the proceeds went to eligible improvements (and eligible fees/charges), but will deny a claim with a poor work description and other documentation that indicates misuse of loan proceeds.

iii. Claim Filing Past the Deadline

If a claim is filed after the Claim Filing Deadline, the Lender must request a waiver to document that the late filing was unavoidable. Note that a servicing error by the Lender is not considered a valid basis for a waiver.

iv. Unresolved Borrower Complaints

HUD may deny a claim if there are unresolved valid borrower complaints against the Dealer or the Lender because a Loan with an unresolved complaint may not be valid and enforceable against the Borrower. The Lender may resubmit the claim with additional documentation regarding the resolution of the complaint or if the Lender obtains a Judgment against the Borrower. Obtaining a Judgment against the Borrower will prove the validity of the debt.

v. Note and/or Assignment Not an Original

The Lender must file a Missing Document Statement if the Lender cannot locate the original Note and/or Assignment of Note.

vi. Evidence of Borrower's Ownership Interest in the Property

The case binder must contain evidence of the Borrower's ownership interest in the Property.

vii. Notice of Default and Acceleration Noncompliance

HUD may deny the claim when the Notice of Default and Acceleration does not comply with requirements.

viii. Missing or Incorrect Information on Form HUD-637, *Title I Claim for Loss*

The Lender will be notified by the FOC if a revised form HUD-637 is required due to missing or incorrect information. The revised form must be signed by an authorized official of the Lender prior to resubmitting the form to HUD.

j. Resubmitted Claims (05/09/2022)

i. Standard

The Lender must resubmit the claim to HUD within six months of the date of HUD's denial letter.

ii. Required Documentation

A resubmitted insurance claim package must contain the following:

- an updated form HUD-637;
- documentation and explanation to address reasons for denial; or

- explanation on why HUD's requests for additional documentation or explanations do not apply to this particular Loan.

k. Appeals (05/09/2022)

The Lender may appeal a denial of insurance benefits. The appeal must be sent to the FOC for processing with the claim package. Should the FOC uphold the denial, the FOC will forward the appeal to the Office of Single Family Program Development, Home Mortgage Insurance Division for review. The Home Mortgage Insurance Division will communicate the final decision to the FOC, who will respond to the Lender. An appeal request must include the following:

- the regulation in dispute;
- the Lender's interpretation of the regulation;
- why HUD's current interpretation is incorrect;
- any other documentation supporting the Lender's interpretation of the regulation;
- actions the Lender took to meet the Lender's interpretation of the regulations; and
- evidence in the claim binder demonstrating these actions.

l. Rescinding or Repurchasing a Claim (05/09/2022)

i. Voluntary Recall of a Claim

(A) Rescinding a Claim

The Lender may recall a claim at any point prior to claim payment. The rescission request must be sent in writing to the FOC and must clearly identify which claim is being recalled. The request must be in writing and signed by an authorized officer of the Lender.

(B) Repurchasing a Claim

A Lender may repurchase a claim for any reason if the claim payment amount is returned within 31 Days of the claim payment date. After 31 Days, HUD retains the right to determine whether it is in the best interest of HUD to return the claim. The repurchase request must be sent to the FOC and must clearly identify which claim is being recalled. The request must be in writing and signed by an authorized officer of the Lender. If repurchase is approved, the Lender must send a separate payment equal to the amount of the claim to the lockbox address for Title I payments.

ii. Involuntary Repurchase

FHA may demand that the Lender repurchase a Loan when the Note is invalid or unenforceable, or for violation of FHA's regulations. FHA's demand for repurchase may occur up to two years after the date that the claim is paid.

FHA may demand repurchase at any time with no time limit upon finding fraud or misrepresentation on the part of the claimant in the Loan's origination. When a Loan is repurchased, FHA will return the claim file to the Lender.

Failure to return a claim payment after demand could result in interest, administrative costs and penalties being assessed against the Lender. Continued failure to pay may result in referral to HUD's Mortgagee Review Board (MRB), the Department of the Treasury, or the Department of Justice (DOJ) for further action to enforce collection of the debt.

m. Lender Responsibilities Pending Insurance Claim Payment (05/09/2022)

If an insurance claim is pending payment, the Lender must not pursue active collections against the Borrower, but must take all steps necessary to protect the interests of HUD and the Lender.

The Lender is responsible for keeping information current for a claim that has already been submitted, but not yet paid.

i. Legal Notices

The Lender is responsible for answering bankruptcy, foreclosure and other legal notices and forwarding the information to HUD.

ii. Borrower Payments

If a Borrower sends a payment while an insurance claim is pending, the Lender must accept it. The Lender then may either retain the payment and submit an amended form HUD-637, or hold the payment and forward it to the FOC after HUD pays the claim.

If a Lender opts not to submit an amended form HUD-637, the Lender may contact the FOC to advise that a payment is being held and request that processing of the claim be expedited so that the payment can be forwarded to the FOC.

iii. Release of Liability

The Lender must not release the Borrower or any co-maker or Co-signer from liability under the Note unless in connection with an assumption, or unless approved in advance by HUD. The Lender may seek approval from HUD by sending a written request to the FOC. The Lender's submission to the FOC must include:

- information regarding the proposed release of liability;
- explanation as to why the Borrower is seeking release from liability;
- the Lender's recommendation; and
- documentation that supports why HUD should approve the request.

2. Title I Claims for Manufactured Homes

Since HUD does not take the Property upon Default, the claim paid by HUD is based on the deficiency balance. HUD requires the Lender to sell the Property prior to submitting a claim and requires the claim payment to be based on the Best Price Obtainable.

If the repossessed Property is not covered by hazard or flood insurance and is subsequently damaged, the Lender bears responsibility for the loss. The appraised value, for claim purposes, will be based on the retail value of comparable homes in undamaged condition, without any deduction for such damage.

a. Pre-claim Requirements (05/09/2022)

The Lender may not file a claim until all default servicing remedies stated in Loan Default and Loss Mitigation have been applied. This servicing includes sending the Notice of Default and Acceleration, repossessing the Manufactured Home, appraising the home, sending the Notice of Sale, and selling the home.

b. Maximum Claim Filing Deadline (05/09/2022)

i. Definition

The Date of Default is 30 Days after the due date of the first unpaid installment.

Funds received by the Lender that equal a full installment, when applied to the overdue installments in the order in which they became due, advance the date of the oldest unpaid installment.

ii. Standard

The Lender must file a claim not later than three months after the date of sale of the Property securing the Loan, but not to exceed 18 months after the date of Default.

iii. Exception to Claim Filing Deadline

Exceptions to the maximum claim filing period are allowed when the Lender can document that the length of delay was reasonable based on the following:

- litigation related to the Loan, including bankruptcy, if initiated prior to the end of the claim filing deadline. The claim must be filed within three months of the end of the litigation;
- management control of the Lender is assumed by a federal or state agency (e.g., the Federal Deposit Insurance Corporation (FDIC));
- the Borrower experiences a financial hardship directly attributable to a major disaster declared by the President of the United States, provided the claim is filed no later than 12 months after the date of Default;
- the Lender can show clear evidence as to why the delay in claim filing was in the interest of HUD; or

- military service by the Borrower as defined in the most recent available SCRA, as adopted by HUD. Any period of military service after the date of Default is excluded in computing the maximum time period for filing an insurance claim.

c. Form HUD-637, *Title I Claim for Loss* (04/10/2025)

A claim for insurance benefits must be made on form HUD-637, *Title I Claim for Loss*. All applicable documents indicated on the form must be included with the claim package, as well as any other documents necessary to meet the criteria shown below. The form must be signed and dated by an authorized official of the Lender under applicable criminal and civil penalties for fraud and misrepresentation.

Claims must be submitted to HUD's FOC.

d. Claim Documentation (04/10/2025)

The Lender must fully document the insurance claim file and include originals of all signed documents in the submission package. These documents include, but are not limited to the:

- Servicing Agreement, if applicable;
- loan application;
- Note;
- Notice to Borrower of HUD's Role;
- security instrument;
- Note assignment;
- assumption agreement; and
- form HUD-56002-MH, *Placement Certificate for Manufactured Home*.

i. Missing Document Statement

For missing required documents, the Lender must include in the claim file a Missing Document Statement. The statement must be signed by an authorized official of the Lender and include an explanation as to why the original document is not available. In addition, the statement must also attest to the following:

- The copy is true and correct, if applicable.
- The obligation is valid.
- The obligation has not been satisfied, paid, or canceled.
- The documentation provided is sufficient to enforce the obligation.
- The Loan will be repurchased, at any time, if HUD is unable to enforce the obligation.

ii. Repossession Legal Notices

The claim file must contain copies of all necessary legal notices sent regarding the repossession and sale of the Manufactured Home. Any proof related to the delivery of such notices should also be included.

iii. Bankruptcy and Probate

In the case of Bankruptcy or death of a Borrower, the claim file must contain all related official notices and documents. Required documentation includes a copy of any proof of claim or other documents filed by the Lender to protect its rights.

iv. Recourse Agreement

The Lender must exercise any right they have under a recourse agreement to have a Dealer repurchase the loan Note prior to filing a claim. If the Lender is unable to enforce the recourse agreement, the claim file must adequately document that enforcement was not possible.

Any recourse must first be used to reimburse the Lender for any of its losses on its 10 percent not covered by federal insurance. Any amounts remaining would offset any claim amount the Lender would make to FHA. FHA would not receive any of the recourse funds.

v. Assignment of Lenders' Rights to the United States

(A) Note Assignment

The claim package must include an assignment of the Lender's entire interest in the loan Note to the United States. The assignment of the loan Note must be completed in the following format:

> All rights, title, and interest of the undersigned are hereby assigned (without warranty, except that the loan qualifies for insurance) to the United States of America (HUD).
>
> (Financial Institution) _____
>
> By: _____
>
> Title: _____
>
> Date: _____

(B) Assignment of Security Instrument

In most cases, Lenders will not assign the security instrument to HUD. Instead, Lenders must repossess and attempt to resell the Manufactured Home before submitting a claim to HUD.

If the Lender obtained a Judgment against the Borrower(s), or obtained additional security for the Loan beyond the minimum security required by HUD, then the Judgment, or other security held by the Lender, must be assigned to the United States. The document for such assignment(s) must be in a format that meets the requirements

of the local jurisdiction or recording authority. The assignment must identify HUD as the assignee and the FHA Title I case number.

The security assignment must be recorded prior to filing the insurance claim and the original recorded assignment document must be included in the claim package. If the Lender submitted the security assignment for recording in a timely fashion, but cannot provide the recorded document with the claim package due to delay at the recorder's office, or other circumstances beyond the Lender's control, the Lender must still file its claim prior to the claim filing deadline. Instead of the recorded assignment, the claim package must include the following documents:

- a copy of the executed, unrecorded assignment;
- reasonable evidence that the assignment was sent for recording before the expiration of the claim filing period. Reasonable evidence includes a copy of the dated check used to pay the local recorder, a dated receipt from the local recorder for the recording fees, or proof of mailing (e.g., certified slip, green card) of assignment to local recorder; and
- a statement signed by an authorized official of the Lender stating:
  - the copy of the executed assignment is a true and exact copy of what was sent to the recorder's office;
  - the recorded copy of the lien assignment could not be obtained before the end of the claim filing period due to delays in the recorder's office; and
  - the Lender will promptly forward the lien assignment to HUD upon receipt of the recorded copy.

(C) Valid and Enforceable When Assigned

The loan obligation must be valid and enforceable against the Borrower when assigned to the United States. If HUD has reason to believe that an obligation is not valid or enforceable, the claim may be denied (or HUD may demand repurchase if a claim is already paid). The Lender may resubmit the claim after obtaining a valid and enforceable Judgment for the unpaid balance of the Loan.

e. Calculation of Insurance Claim Payment (05/09/2022)

HUD calculates the claim payment as follows:

Start With	Loan Balance as of the Date of Default
Add:	Interim Interest Repossession and Preservation Costs Sales Commission
Subtract:	Best Price Obtainable Credit Due to the Borrower
Equals	**Lender Loss**
Subtract:	Coinsurance (10%)
Equals	**Claim Payment** (90% of Lender Loss)

f. Loan Balance as of Default Date (04/10/2025)

The date of Default is 30 Days after the due date of the first unpaid installment. Any amount received from a Partial Payment to a full monthly installment must be applied to the Loan and advance the next payment due date and the associated date of Default.

The loan balance as of the date of Default is the balance as of the last credited payment plus accrued interest up to 30 Days past the due date of the first unpaid installment.

g. Interim Interest (05/09/2022)

Interim Interest refers to the interest the Lender earns from the date of Default to the claim submission date on form HUD-637, plus 15 Days.

HUD pays interim interest on the loan balance, up to a maximum of nine months of interest.

The interim interest rate is the Treasury Current Value of Funds Rate, as determined and posted by the Department of the Treasury.

h. Repossession and Preservation Cost (05/09/2022)

Costs necessary to repossess the home and maintain the home while awaiting sale include but are not limited to:

- the fee for the condition report;
- the fee for the appraisal;
- the lot rent;
- unpaid/delinquent property taxes, provided that:
  - documentation is contained in the case binder from the local authority showing the tax amount that is past due;
  - the taxes are legally required to be paid in order for the Lender to repossess and/or foreclose on the collateral;
  - current year property taxes are due on the unit; and
  - the taxes are for the Property identified as secured on the security instrument;
- moving the home to a sales lot (not to exceed $1,000 per module - i.e., $1,000 for a single-wide, $2,000 for a double-wide);
- the attorney's fees (not to exceed $1,000);
- court costs (e.g., filing fee, fee for serving a summons);
- changing locks;
- winterizing; and
- hazard or flood insurance if obtained by the Lender after repossession.

i. Sales Commission (05/09/2022)

Sales commission may be reimbursed when paid to a third party to sell the repossessed home. The commission for selling the home must not exceed:

- 10 percent of the sales price if the home is sold on the original site; or
- 7 percent of the sales price if the home is moved and sold at another location.

j. Best Price Obtainable (05/09/2022)

The Best Price Obtainable must be subtracted in the claim calculation.

k. Credit due to Borrower (05/09/2022)

Credit Due to Borrower refers to money paid by the Borrower that has not been posted to the loan balance. Credit due to Borrower must be disclosed on form HUD-637. Credited funds include:

- positive escrow balance;
- money in suspense; and
- Partial Payments.

l. Claims Submission (05/09/2022)

i. Packaging the Claim

Form HUD-637 has a checklist of the most common documents to accompany the claim.

Each claim must be submitted in a green Title I Claim Folder (form HUD-3432) to HUD's FOC. HUD's FOC can provide these folders as well as labeled yellow file tab inserts to help sort the documentation.

ii. Mailing and Tracking the Claim

The claim must be mailed to the attention of the Endorsement and Claims Processing Branch at the FOC. Lenders must access FHAC to verify HUD's receipt of the claim package and issuance of claim payment.

Title I Insurance Processing Branch

The Lender must submit the following Title I claim-related requests to the Title I Insurance Processing Branch:

- initial Title I claim submissions;
- resubmittals of claims;
- appeals of claim denials; and
- waiver requests.

For assistance or questions regarding claims, Lenders may contact the Title I Insurance Processing Branch in the following ways:

- call the Title I Insurance Processing Help Line at (800) 669-5152 extension 2832;
- send a fax to (202) 485-9035;
- send an email to title_one_help@hud.gov; or
- in writing to:

U.S. Department of Housing and Urban Development
Financial Operations Center
Attention: Title I Insurance Processing Branch
52 Corporate Circle
Albany, New York 12203

m. Updating the Insurance Claim (05/09/2022)

A Lender is responsible for keeping information current for a claim that has already been submitted, but not yet paid.

n. Method and Notification of Payment (05/09/2022)

The Debt Collection Improvement Act directs federal agencies to disburse funds via Electronic Funds Transfer (EFT).

i. Electronic Funds Transfer

In order to receive claim payments, the Lender must have completed the SF 3881 form, *ACH Vendor/Miscellaneous Payment Enrollment*.

To wire payments to a Lender's bank account, HUD must receive a completed SF 3881 form. Processing this form takes several weeks as does testing through the Federal Reserve System. It is advisable for a Lender to have the form on file with HUD before filing a claim. The form can be obtained from the FOC. Lenders must mail the completed SF 3881 form to the address on the form.

ii. Notification and Identification of Payment

Upon claim payment, a record will be attached to each EFT payment that includes the FHA case number and the Lender's loan number reported to HUD when the Loan was first reported for insurance. Details of the claim status and claim payment of a Loan can be found online using FHAC.

iii. Lender Responsibilities after Insurance Claim Payment

The Lender must not attempt to collect money from the Borrower, including the coinsurance loss, after a claim is paid. Since the loan Note is assigned to the United States, the Lender has no basis from which to make demand upon a Borrower.

The Lender must promptly refer any inquiries or communications from the Borrower or others regarding the Loan to HUD's FOC. Lenders must also submit all legal notices, correspondence, or payment to HUD's FOC.

o. Supplemental Claim (05/09/2022)

i. Definition

A Supplemental Insurance Claim refers to a claim request for additional reimbursement. A supplemental claim may be filed for reimbursable costs where the receipts were unavailable or not included with the initial claim.

ii. Standard

A supplemental claim must be filed within six months after the date of the payment on the initial claim.

iii. Required Documentation

The Lender must submit a supplemental claim on form HUD-637. Lenders must provide an explanation for additional reimbursement, along with supporting documentation and receipts.

A fee of $100 payable to HUD must accompany each supplemental claim. The $100 will be returned to the Lender if the supplemental claim was due to HUD error.

p. Terminating Title I Premium Billing (05/09/2022)

Title I Lenders are obligated to pay the loan insurance premium on any insured Loan until it matures, or until the Loan is prepaid in full or an insurance claim is filed. This obligation continues even if:

- the Lender has exhausted its insurance coverage reserve account, provided that the Loan is current; and/or
- the Lender decides to terminate its Title I Contract of Insurance.

The Title I insurance may be terminated under the following circumstances:

- the Lender files a claim on a Defaulted Loan; or
- the Title I Loan is paid in full. (Enter “paid-in-full” as the exception reason on the Annual Exception Payment screen, under Title I Servicing in FHAC.)

q. Abbreviated Claim (05/09/2022)

The abbreviated filing process allows insurance termination on Defaulted Loans when there is no expectation of claim payment. The Lender may submit an abbreviated claim to terminate premium billing when:

- the Loan is in Default and no Reserves are left; and/or
- the Lender knows a Defaulted Loan is ineligible for claim payment.

i. Required Documentation

The Lender must submit:

- form HUD-637, Part II with items 1-9, 15 and 16 completed. The Lender, or an agent of the Lender with proper Power of Attorney (POA), must sign form HUD-637, with their full name and title included in box 16;
- a certification, stating that the claim is being filed to stop premium charges, no claim payment is expected and no claim resubmission will occur. The Lender, or an agent of the Lender with proper POA, must sign the certification. Please also indicate that there are no Reserves, or why no claim payment is expected;
- copies of the Notices of Default and Acceleration. In the event that the Lender could not issue the notice due to bankruptcy, include documentation of the bankruptcy filing;
- documentation verifying that the Lender has updated credit bureau reporting to show Default has occurred; and
- a copy of the Note and security instrument (where applicable). No assignment to HUD is required. If the Lender does not have a copy of the Note, the Lender may send HUD a Missing Document Statement for the Note along with the copy of the security instrument, if the security instrument details the terms of the Loan.

Lenders must mail the abbreviated claim package to the FOC. To expedite processing, the Lender must use an attention line of "Abbreviated Claim Filing."

ii. HUD Review of Abbreviated Claims

HUD will review the documentation to ensure that the Loan is a Title I Loan previously reported for insurance and that a Default has occurred. Once confirmed, HUD will accept the abbreviated claim filing and deny the claim benefits since it is not payable.

This claim denial will stop subsequent insurance charges from being billed. Lenders can confirm termination of billing by reviewing its next monthly Title I billing statement. These Loans will appear in the "RENEWAL CANCELLATION" section of the bill.

r. Denial of Insurance Claims (05/09/2022)

Effective for loan applications dated on or after June 1, 2009, when FHA endorses a Loan for insurance, the Loan is covered under the Lender's Contract of Insurance. The insurance coverage for the Loan is incontestable from the date of issuance of the certificate of insurance except for fraud or misrepresentation on the part of the claimant in the origination.

Regardless of the loan application date, FHA may deny a claim in whole or in part, or within two years after paying a claim, and recover the claim payment based upon a violation of FHA's requirements for claim submission. If the Note representing the Borrower's obligation that is assigned to FHA is invalid or unenforceable, or if the Lender making the claim does not follow the FHA claim requirements under the insurance contract, FHA may deny payment of the claim.

i. Debt Not Valid or Enforceable

If the enforceability of the lien can be challenged, the Lender can obtain a Judgment against the Borrower and assign the Judgment to HUD. A lien may be challenged by improper wording of or method of mailing a legal notice, or other events that can challenge the validity of the deficiency debt. Acquiring a Judgment will prove the debt is valid.

ii. Missing or Incomplete Claim File Documentation

The claim package must include all applicable documents listed on form HUD-637. If claim documentation is missing or incomplete, the FOC may request the documents from the Lender.

iii. Claim Filing Past the Deadline

If a claim is filed after the claim filing deadline, the Lender must request a waiver to document that the late filing was unavoidable. Note that a servicing error by the Lender is not considered a valid basis for a waiver.

iv. Unresolved Borrower Complaint

A Borrower complaint that casts doubt on the enforceability of the loan Note must be resolved prior to filing a claim. The Lender may resubmit the claim with additional documentation regarding the resolution of the complaint or if the Lender obtains a Judgment against the Borrower. Obtaining a Judgment against the Borrower will prove the debt is valid and enforceable.

v. Note and/or Assignment Not an Original

The Lender may file a Missing Document Statement if it cannot locate the original Note and/or Assignment of Note.

vi. Error on the Appraisal Obtained in Connection with the Repossession of the Manufactured Home

The Lender must address and resolve appraisal errors directly with the Appraiser. A claim may still be paid if errors are not resolved; however, HUD will adjust the claim payment amount.

Errors on the appraisal include, but are not limited to, a property description (including model) that does not match the invoice/sales contract, math error in value calculation, and/or a value of model options was incorrectly used or omitted.

vii. Missing or Incorrect Information on Form HUD-637, *Title I Claim for Loss*

The FOC will notify the Lender if a revised form HUD-637 is required due to missing or incorrect information. The revised form must be signed by an authorized official of the Lender prior to its resubmission to HUD.

viii. Missing or Incomplete Receipts for Repossession and Resale Expenses

HUD will adjust/lower claim amounts if a receipt used to substantiate a claimed amount is missing or unclear, unless the Lender can locate the receipt or clarify any information in question.

s. Resubmitted Claims (05/09/2022)

When a claim file is denied, the Lender has the option to resubmit with information to resolve the denial.

i. Standard

The Lender must resubmit the claim to HUD within six months of the date of HUD's denial letter.

ii. Required Documentation

A resubmitted insurance claim package must contain the following:

- an updated form HUD-637; and
- documentation and explanation to address reasons for denial; or
- explanation on why HUD's requests for additional documentation or explanation do not apply to this particular Loan.

t. Appeals (05/09/2022)

The Lender may appeal a denial of insurance benefits. The appeal must be sent to the FOC for processing with the claim package. Should the FOC uphold the denial, it will forward the appeal to the Office of Single Family Program Development, Home Mortgage Insurance Division for review. The Home Mortgage Insurance Division will communicate the final decision to the FOC, who will respond to the Lender. An appeal request must include the following:

- the regulation in dispute;
- the Lender's interpretation of the regulation;
- why HUD's current interpretation is incorrect;
- any other documentation supporting the Lender's interpretation of the regulation;
- actions the Lender took to meet the Lender's interpretation of the regulations; and
- evidence in the claim binder demonstrating these actions.

u. Rescinding or Repurchasing a Claim (05/09/2022)

i. Voluntary Recall of a Claim

(A) Rescinding a Claim (Pre-claim Payment)

The Lender may recall a claim at any point prior to claim payment. The rescission request must be sent in writing to the FOC and must clearly identify which claim is being recalled. The request must be in writing and signed by an authorized officer of the Lender.

(B) Repurchasing a Claim (Post-claim Payment)

The Lender may repurchase a claim for any reason if the claim payment amount is returned within 31 Days of the claim payment date. After 31 Days, HUD retains the right to determine whether it is in the best interest of HUD to return the claim. The repurchase request must be sent to the FOC and must clearly identify which claim is being recalled. The request must be in writing and signed by an authorized officer of the Lender. If repurchase is approved, the Lender must send a separate payment equal to the claim amount of the claim to the lockbox address for Title I payments.

ii. Involuntary Repurchase (HUD's Demand for Repurchase of a Claim)

FHA may demand that the Lender repurchase a Loan when the Note is invalid or unenforceable, or for violating FHA's claim submission requirements. FHA's demand for repurchase may occur up to two years after the date that the claim is paid.

FHA may demand repurchase at any time with no time limit upon finding fraud or misrepresentation on the part of the claimant in the Loan's origination. Consistent with existing practice, when a Loan is repurchased, FHA will return the claim file to the Lender.

Failure to return a claim payment after demand could result in interest, administrative costs and penalties being assessed against the Lender. Continued failure to pay may result in referral to HUD's Mortgagee Review Board (MRB), the Department of the Treasury, or the Department of Justice (DOJ) for further action to enforce collection of the debt.

D. TITLE I DISPOSITION

1. Property Disposition for Property Improvement Loans

a. Lender Option to Proceed Against the Security (05/09/2022)

After acceleration of the maturity on a Defaulted Loan, the Lender may file a claim under its Contract of Insurance. If the Loan is secured, the Lender may opt instead to collect the Loan by proceeding against the loan security rather than via claim submission to HUD. The Lender might opt to collect via the security (rather than via its Title I insurance) if the Lender determines that it will likely recover more than the 90 percent insurance payment it will receive from HUD and/or if the Lender wishes to avoid a reduction in its Title I insurance coverage reserve account.

i. Prior Approval Required

If the Lender wants to proceed against the loan security and later file a Title I insurance claim for any remaining loss, the Lender must obtain prior approval from HUD.

The Lender must submit a written request for prior approval to the Home Mortgage Insurance Division. The request should include:

- the status of the Title I Loan, and an appraisal of the Property;
- the amount and position of all unpaid liens against the Property;
- estimated costs of foreclosure and disposition; and
- the anticipated time to acquire and dispose of the Property.

ii. Deficiency Judgment Required

In proceeding against the security, the Lender must comply with all applicable state and local laws, and must take all actions necessary to preserve its rights to obtain a valid and enforceable deficiency Judgment against the Borrower.

b. Foreclosure by Other Lien Holder (05/09/2022)

If another lien holder starts a foreclosure action against the Property that secures a Title I Loan, the Title I Lender must monitor the proceedings and participate as necessary to preserve its rights. HUD does not require that the Title I Lender bid at a foreclosure sale or acquire title to the Property. The Lender may submit a claim if the Title I Loan is in Default and otherwise eligible before, or after, the foreclosure action is completed.

If the Title I Lender elects to bid at a foreclosure sale to acquire title to the Property, then the Lender is “proceeding against the loan security” and the requirements outlined above will apply.

If the foreclosure action is completed prior to the Title I Lender submitting a claim to HUD, the Lender must determine if excess funds exist after foreclosure, and document that determination in the case binder. If excess funds are available, the Lender must take

appropriate action to obtain them. The case binder must contain copies of all notices sent to the Title I Lender and document the Lender's actions.

c. Enforceable Note (05/09/2022)

The Lender must service the Loan in a manner that will preserve the right to collect the Loan. If necessary, a Lender may obtain a Judgment against the Borrower to establish enforceability.

2. Property Disposition of Manufactured Homes

a. Proceeding against the Loan Security (05/09/2022)

After acceleration of the maturity on a Defaulted Loan, the Lender must proceed against the loan security by repossession or foreclosure of the collateral. Any action must be in compliance with all applicable state and local laws, and the Lender must acquire proper marketable title to the Manufactured Home securing the Loan. The Lender must also take all actions necessary under federal, state, and local law to preserve its rights to obtain an enforceable deficiency against the Borrower.

b. Abandonment (05/09/2022)

If the Lender determines that the Manufactured Home has been abandoned, the Lender may proceed against the security without waiting for the expiration of the 30-Day period provided in the Notice of Default and Acceleration. The Lender must document how it determined that the home was abandoned.

c. Condition Report (05/09/2022)

Prior to repossession, the Lender or its agent must make a visual inspection of the Manufactured Home and prepare a report regarding the condition of the home. The report must also detail the condition of any components or accessories that were financed with the Manufactured Home (e.g., refrigerator, air conditioner, etc.), and list any that are missing. The report must be retained in the case binder.

d. Appraisal (05/09/2022)

The Lender must obtain an appraisal of the secured Property in compliance with Appraiser and Property Requirements for Title I Loans. The Lender must obtain the appraisal as soon as possible after repossession, or earlier with the permission of the Borrower. The appraisal must be performed on the home site unless the site owner requires that the home be removed before the appraisal can be performed. The appraisal must reflect the current value of comparable Manufactured Homes in similar condition and in the same geographic area where the repossession occurred. The appraised value is part of the calculation of the insurance claim payment.

e. Appraiser Qualifications (05/09/2022)

Appraisers of Title I Manufactured Home Properties must be in compliance with requirements for Title I Appraisers.

f. Damage to Manufactured Home While in Possession of the Lender (05/09/2022)

If the Manufactured Home is damaged while in the possession of the Lender, the Lender must document the nature of the damage and seek repair through their hazard insurance coverage. If the Manufactured Home is without hazard insurance, the appraisal should reflect value as if there were no damage.

g. Salvage (05/09/2022)

If the repossessed Manufactured Home is in such poor condition that it cannot be made usable again, the Appraiser must demonstrate that fact. The appraisal should reflect the Manufactured Home's salvage value and the method used to determine the value.

h. Repossession and Preservation Expenses (05/09/2022)

All repossession and preservation expenses paid to a third party must be documented in the case binder. Such expenses include legal fees, the cost to move the home, the cost of the appraisal, hazard insurance premiums, personal property taxes, and site rental. All receipts must be legible and detailed to identify the unit, Borrower, date, amount, purpose, and parties involved in the transaction. Note that there are limits to HUD's reimbursement for legal fees and moving costs in its calculation of the Lender's claim payment.

i. Acquisition by Voluntary Conveyance or Surrender (05/09/2022)

Instead of repossession, a Lender may accept a voluntary conveyance of title or ownership of the Property securing a Manufactured Home Loan which is in Default, provided that:

- the Lender accepts the conveyance in full satisfaction of the Borrower's obligation and no Title I claim is submitted to HUD; or
- the Lender may accept voluntary surrender of the Property without satisfaction of the Borrower's obligation and submit a Title I claim to HUD. The Lender must dispose of the Property in compliance with state and local laws so as to ensure that it can assign to HUD a valid and legally enforceable obligation against the Borrower for any deficiency.

If a Lender accepts a voluntary conveyance of title or a voluntary surrender of the Property, the Notice of Default and Acceleration is not required.

j. Cash for Keys (05/09/2022)

i. Definition

Cash for Keys is a monetary consideration offered as an alternative to legal eviction to property occupants after foreclosure.

ii. Standard

The amount paid under this policy must be customary and reasonable for the jurisdiction, up to $1,000 per dwelling, on the condition that the occupant peacefully vacates a Property for a Title I Loan in Default.

Cash for Keys must not be utilized in conjunction with Properties acquired by voluntary conveyance or surrender.

In jurisdictions with rent control ordinances, Lenders must adhere to all applicable laws and regulations.

The Cash for Keys offer must be made available only to occupants who fail to vacate a Property after the first notice to quit is delivered and further legal action to evict is imminent.

In order to receive the funds, all occupants must vacate the Property within 30 Days of the Cash for Keys offer. Occupants are required to leave the Property in Broom-swept Condition. All components (e.g., appliances, fixtures, inside or outside heating unit, inside or outside air conditioning unit, carport) must be left with the Property.

Servicers must inspect the vacant Properties within 15 Days after the occupants vacate the Property and prior to releasing the funds to ensure that the occupants have complied with their agreement on the condition of the Property.

The amount paid under the Cash for Keys policy may be included in a claim amount, and is subject to standard coverage of 90 percent, limited by the amount in the Lender's reserve account.

iii. Required Documentation

Servicers must maintain documentation in the file showing all of the following:

- a comparison analysis of the amount offered to the home occupants with jurisdictional cost for legal eviction and/or possession of the Property;
- the date and amount of the offer;
- the occupant's receipt of the funds and agreed upon date of vacancy;
- communication records related to the Cash for Keys offer; and
- a condition inspection.

k. Sale of the Repossessed Home (05/09/2022)

The Manufactured Home must be sold to a third party and the sale must be evidenced by a sales contract. The Manufactured Home must be sold in a commercially acceptable manner, including all legally required notifications to the Borrower(s).

i. Best Price Obtainable

When the Lender obtains title to the Property securing a Manufactured Home Loan through repossession or foreclosure, the Property must be sold for the best price obtainable before submitting an insurance claim.

(A) Definition

The Best Price Obtainable refers to the greater of:

- the actual sales price of the Property, after deducting the cost of
  - repairs to make the home habitable,
  - cleaning and reconditioning,
  - upgrades to the home requested by a buyer,
  - making home furnishings, and equipment needed to make the Property marketable, and
  - transportation, set-up, and anchoring if the Manufactured Home is moved to a new home site; or
- the appraised value of the Property before repairs (as determined by a HUD-approved appraisal obtained in accordance with Appraiser and Property Requirements for Title I Loans.

(B) Standard

A Lender's objective in selling the Manufactured Home is to obtain the maximum net return in order to minimize the loss to HUD and to the Lender, and to minimize the deficiency amount that will be owed by the Borrower. The Lender should attempt to sell the home for a net sales price of no less than the retail appraised value of the home. A Lender may sell a home for less than the retail appraised value, but HUD's calculation of the insurance claim payment will be based on the best price obtainable.

ii. Cost to Make the Manufactured Home Marketable

Any expense paid to a third party to facilitate a sale by making the home marketable must be documented in the case binder. A receipt must be legible and detailed to identify the unit, Borrower, date, amount, purpose, and parties involved in the transaction. Items may include the cost of repairs, furnishings, transportation, and set-up. Any expense dated after the resale date will not be eligible for eventual insurance claim reimbursement.

iii. Extra Items Sold with the Repossessed Manufactured Home

If a Lender sells an extra item in addition to the repossessed Manufactured Home to induce the sale, the extra item must be itemized on the sales contract and a value provided. This will allow the deduction of the item (i.e., a new washer and dryer, when none existed before) from the sales price to arrive at the sale value of the repossessed Manufactured Home for the purpose of claim calculation.

iv. Sales Commission

The amount of a sales commission paid to a third party must be documented in the case binder. Determination of whether the Manufactured Home was sold on- or off-site must be part of the documentation. Note that HUD limits the amount of Sales Commission that can be included in its calculation of the Lender's claim payment.

v. Enforceable Note

The Lender must service the Loan in a manner that will preserve a post-repossession resale deficiency, where state law allows. If necessary, a Lender may obtain a Judgment against the Borrower to establish enforceability.

vi. Lender Responsibility While Insurance Claim is Pending

If an insurance claim is pending payment, a Lender must not pursue active collections against the Borrower, but should take all steps necessary to protect the interests of HUD and the Lender.

vii. Legal Notices

The Lender is responsible for answering legal notices (e.g., bankruptcy) and forwarding the information to the FOC.

viii. Borrower Payment before Claim Payment

If a Borrower sends a payment while an insurance claim is pending, the Lender may either amend its form HUD-637, *Title I Claim for Loss*, or request that claim payment be expedited so that the payment can be forwarded to HUD.

ix. Prohibition against Coinsurance Recovery

The Lender must not attempt to collect money from the Borrower, including the coinsurance loss, after a claim is paid. Since the loan Note is assigned to the United States, the Lender has no basis from which to make demand upon a Borrower.

x. Borrower Payment after Claim Payment

All payments received by a Lender after claim payment must be promptly transmitted to the FOC.

V. QUALITY CONTROL, OVERSIGHT, AND COMPLIANCE

The Quality Control, Oversight, and Compliance section in this *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) covers quality control requirements, Federal Housing Administration (FHA) monitoring of Mortgagees, and enforcement actions FHA may take if its requirements are violated. This section covers Title I Lenders, Title II Mortgagees, and other FHA program participants. The term "Mortgagee" is used throughout for all types of FHA approval (both Title II Mortgagees and Title I Lenders) and the term "Mortgage" is used for all products (both Title II Mortgages and Title I Loans), unless otherwise specified.

A Mortgagee must fully comply with all of the following requirements in order to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II Mortgages.

If there are any exceptions or program-specific requirements that differ from those set forth below, the exceptions or alternative program requirements are explicitly stated or hyperlinked to the appropriate guidance. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

A. QUALITY CONTROL OF LENDERS AND MORTGAGEES

1. Quality Control Program Overview

a. Purpose of Quality Control Program (09/14/2015)

Quality Control (QC) Programs must be designed to:

- ensure compliance with FHA and Mortgagee policy and guidelines related to FHA Loan Administration;
- protect FHA and the Mortgagee from unacceptable risk;
- guard against errors, omissions, negligence, and fraud from those involved in the Mortgagee's Loan Administration;
- determine the root cause of any deficiencies and identify potential internal and external control weaknesses;
- alert Mortgagee management to patterns of deficiencies with respect to mortgage process and personnel;
- ensure timely and appropriate corrective action;
- ensure the existence of required documentation (e.g., credit, loan, and appraisal information) that is the basis of underwriting and servicing decisions;
- ensure Mortgages are secured by properties with values sufficient to support the Mortgage; and
- ensure compliance with fair lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act (ECOA).

b. Definitions (10/15/2019)

i. Quality Control Program

A Quality Control (QC) Program is the process and written procedures through which the Mortgagee seeks to ensure that FHA operations and Loan Administration are in compliance with all applicable requirements.

ii. Quality Control Plan

A Quality Control (QC) Plan is a written plan that sets forth a Mortgagee's procedures for ensuring quality control. A QC Plan is the written element of a Mortgagee's QC Program.

iii. Loan Administration

Loan Administration refers to all aspects of the FHA mortgage lifecycle, including origination, underwriting, closing, endorsement, and servicing of FHA-insured Mortgages that are governed by FHA policies and procedures. Loan Administration includes the approval of a Condominium Project.

c. Standard (09/30/2016)

The Mortgagee must adopt and implement a QC Program that fully complies with the requirements of this Handbook 4000.1, and, where applicable, the additional Multifamily QC requirements outlined in the *Multifamily Accelerated Processing (MAP) Guide*, 4430.G. The Mortgagee must maintain and update its QC Program as needed to ensure it is fully compliant with all applicable FHA requirements at all times.

The QC Program must cover the lifecycle of an FHA-insured Mortgage, including origination, underwriting, closing, endorsement, and servicing functions that are conducted by the Mortgagee.

The QC Program must cover all policies and procedures, whether performed by the Mortgagee or outsourced to a contractor, to ensure full compliance with FHA requirements for Loan Administration.

The QC Program must provide the Mortgagee's management with information sufficient to adequately monitor and oversee the Mortgagee's compliance, and measure performance as it relates to the Mortgagee's FHA mortgage activity.

i. Exception for Multifamily Mortgagees

The following QC Program requirements do not apply to Mortgagees with Originate Multifamily, Service Multifamily, or Service/Originate Multifamily only authority. For Mortgagees with Originate Single Family/Multifamily, Service Single Family/Multifamily, or Service/Originate Single Family/Multifamily authority, these QC Program requirements do not apply to its Multifamily operations.

- V.A.2.b.iii(A) Denied Mortgage Applications
- V.A.2.b.iv Escrow Funds
- V.A.2.b.vi Timely and Accurate Submission for Insurance
- V.A.2.d.iv(F) Method of Reporting
- V.A.3.a.i Time Frame for Selection and Review
- V.A.3.a.iii Sample Size Standard
- V.A.3.a.iv Sample Composition Standard
- V.A.3.b Loan Sample Risk Assessment
- V.A.3.c Origination and Underwriting Loan File Compliance Review
- V.A.3.d Quality Control Reviews of Specialized Mortgage Programs
- V.A.3.e Servicing Loan File Compliance Review
- V.A.3.f.ii Servicing Reviews
- V.A.4 Data Integrity
- V.B Quality Control of Other Participants
- V.C.2.a Title I Lender Monitoring Reviews
- V.C.2.c Servicer Tier Ranking System II
- V.C.3 Loan Level Monitoring
- V.D Monitoring of Other Participants
- V.E.3 Program Office Actions and Sanctions
- V.E.5.e Specific Program Participants

d. Required Documentation (09/20/2021)

The Mortgagee must document the existence of its QC Program and evidence of its implementation, including written procedures, QC reports, and corrective action plans. All applicable documents must be dated to demonstrate compliance with the retention and reporting time frames in Quality Control of Lenders and Mortgagees.

i. Time Frame for Retention

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings, for a period of two years from the initial QC review, or from the last action taken to mitigate Findings, whichever is later.

ii. Production of Documents

The Mortgagee must make all documentation relating to its QC Program available to FHA at any time upon request.

2. Institutional Quality Control Program Requirements

a. Who May Perform Quality Control (03/14/2016)

The Mortgagee may use employees or contractors to perform QC functions in accordance with the following requirements.

i. Employees

The Mortgagee must ensure that employees who perform QC Program functions are, at all times, independent of all Loan Administration processes and do not directly participate in any of the Loan Administration processes represented in the QC Plan. The Mortgagee must ensure QC employees are not within any chain of reporting or management that is directly connected to Loan Administration staff.

ii. Contractors

The Mortgagee may contract with outside vendors to perform QC functions if:

- the Mortgagee assumes full responsibility for the contractor's conduct of QC reviews in compliance with FHA requirements;
- the Mortgagee and the contractor have a valid contractual agreement in place that specifies the roles and responsibilities of each party; and
- the Mortgagee acknowledges that the existence of such contract for the provision of QC services does not satisfy the Mortgagee's obligation to have a written QC Plan that fully complies with FHA requirements.

The Mortgagee must ensure that contractor employees who perform QC Program functions on behalf of the Mortgagee do not participate in any of the Loan Administration processes represented in the QC Plan.

b. Operational Compliance (06/23/2026)

The Mortgagee must ensure that its QC Plan provides for the following required reviews.

i. Personnel

(A) Training [Text was deleted in this section.]

(1) Standard

The Mortgagee must train all staff involved in FHA Loan Administration and QC processes to ensure that staff know all current FHA requirements for the FHA Loan Administration practices for which the Mortgagee is responsible.

(2) Required Documentation

The Mortgagee must maintain a list of all training provided to staff. For each training, the Mortgagee must include a summary of the content covered.

(B) Restricted Participation

(1) Standard

The Mortgagee must confirm it verified, through each of the following systems, that the designated employees and/or Affiliates listed below were permitted to participate in FHA programs. If any of the designated employees and/or Affiliates are found to be ineligible, they are restricted from participating in FHA programs.

Checks to verify employee eligibility must be conducted at least semiannually.

(a) Excluded Parties List

The Mortgagee must verify employee eligibility for all officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, loan originators, and all other employees and Affiliates participating in U.S. Department of Housing and Urban Development (HUD) programs for or on behalf of the Mortgagee, using the System for Award Management (SAM) Excluded Parties List.

(b) Limited Denial of Participation

The Mortgagee must verify employee eligibility for all officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, loan originators, and all other employees and Affiliates participating in HUD programs for or on behalf of the Mortgagee, using the Limited Denial of Participation (LDP) List.

(c) National Mortgage Licensing System and Registry

The Mortgagee must verify that all employees and Affiliates participating in HUD programs for or on behalf of the Mortgagee are registered with the National Mortgage Licensing System and Registry (NMLS), unless excluded from NMLS requirements by law or regulation.

(2) Required Documentation

Mortgagees must maintain documentation that supports each employee's eligibility.

ii. Affiliate Quality Control Reviews

(A) Standard

The Mortgagee must perform QC reviews of its Affiliates in the same manner and under the same conditions as required for the Mortgagee's own operations. At a minimum, Affiliate monitoring must include a periodic (semiannual at a minimum)

reverification of the Affiliate's compliance with all applicable laws related to licensing, qualification, eligibility, or approval to originate or subservice Mortgages.

(B) Required Documentation

The Mortgagee must document the methodology used to review Affiliates, the results of each review, and any corrective actions taken as a result of review Findings. The procedures used to review and monitor a Mortgagee's Affiliates must be included in the Mortgagee's QC Plan.

iii. Fair Housing and Fair Lending

The Mortgagee must verify that its operations comply with applicable state and federal fair lending laws, including the following:

- Fair Housing Act (42 U.S.C. § 3601 et seq.)
- ECOA (15 U.S.C § 1691 et seq.)
- Federal Truth in Lending Act (15 U.S.C. § 1601 et seq.)

(A) Denied Mortgage Applications

(1) Standard

The Mortgagee must review a random statistical sample of denied applications within 90 Days from the end of the month in which the decision was made. Reviews must be conducted on a monthly basis and ensure that:

- the reasons given for denial were valid;
- each denial has the concurrence of an officer, senior staff person, or underwriter with sufficient approval authority, or a committee chaired by an officer, senior staff person, or underwriter with sufficient approval authority;
- the requirements of the ECOA are met and documented in each file; and
- no civil rights violations were committed in the denial of the application.

Where possible discrimination is noted, the Mortgagee must take immediate corrective action to ensure its operations comply with applicable state and federal fair lending laws.

(2) Required Documentation

The Mortgagee must document the methodology used to review denied applications, the results of each review, and any corrective actions taken as a result of review Findings. The procedures used to review denied applications must be included in the Mortgagee's QC Plan.

(B) Fair Housing Poster and Equal Housing Opportunity Logo

(1) Standard

The Mortgagee must verify that a fair housing poster is prominently displayed in the Mortgagee's home office and any branch offices that deal with Borrowers and the general public. The Mortgagee must verify that the equal housing opportunity logo is prominently displayed on all documents, including both hard copy and electronic documents, distributed by the Mortgagee to the public.

(2) Required Documentation

The Mortgagee must confirm that a fair housing poster is prominently displayed in the Mortgagee's offices. The Mortgagee must be able to demonstrate that all documents distributed by the Mortgagee to the public contain the equal housing opportunity logo.

(C) Fair Housing or Discrimination Violations

(1) Standard

Potential fair housing violations or instances of discrimination must be reported to HUD's Office of Fair Housing and Equal Opportunity (FHEO) immediately.

(2) Required Documentation

Fair housing violations and complaints may be reported online using the HUD Form 903 Online Complaint, contacting HUD's local FHEO Regional Office or by calling the Fair Housing Complaint Hotline at 1-800-669-9777.

iv. Escrow Funds

(A) Standard

The Mortgagee must verify that escrow funds received from Borrowers were used only for the purpose for which they were received, and are in compliance with all Consumer Financial Protection Bureau (CFPB) escrow requirements.

(B) Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

v. Mortgage Insurance Premiums

(A) Standard

The Mortgagee must verify that FHA Mortgage Insurance Premiums (MIP) were remitted to FHA within the required time period or, if not, that the remittance included Late Charges and interest penalties. Mortgagees must address any pattern of late submissions and promptly take corrective measures.

(B) Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

vi. Timely and Accurate Submission for Insurance

(A) Standard

The Mortgagee must verify that Mortgages are being submitted to FHA for insurance within the required time frames. See Case Binder Submission – Direct Endorsement Non-lender Insurance, Post-closing and Insurance for Property Improvement Loan Program and Post-closing and Endorsement for Manufactured Home Loan Program.

(B) Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

vii. Advertising

(A) Standard

The Mortgagee must review all advertisements generated by the Mortgagee or on its behalf to verify compliance with HUD/FHA advertising requirements. See Advertising. The Mortgagee must take prompt corrective action upon discovering any violation of advertising requirements described in this Handbook 4000.1.

(B) Required Documentation

The Mortgagee must retain copies of any Advertising Device the Mortgagee produces, or that is produced on the Mortgagee's behalf, that is related to FHA programs. The Mortgagee must retain samples of the advertising reviewed, the results of each review, and any corrective actions taken as a result of review Findings.

viii. Reportable Cyber Incident

(A) Definition

A Cyber Incident is an occurrence that results in actual harm to the confidentiality, integrity, or availability of an information system or the information that the system processes, stores, or transmits.

A Reportable Cyber Incident is a Cyber Incident that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the FHA-approved Mortgagee's ability to meet its operational obligations for originating or servicing FHA-insured Mortgages.

(B) Standard

An FHA-approved Mortgagee that has experienced a Reportable Cyber Incident must report the Cyber Incident to HUD's FHA Resource Center at answers@hud.gov and HUD's Security Operations Center at cirt@hud.gov **as soon as possible** and no later than 36 hours after the Mortgagee has determined that a Reportable Cyber Incident has occurred.

(C) Required Documentation

Cyber Incidents reported to HUD's FHA Resource Center at answers@hud.gov and HUD's Security Operations Center at cirt@hud.gov must include the following information:

(1) Mortgagee Name
(2) Mortgagee ID
(3) name, email address, and phone number of the Mortgagee's point of contact for coordinating follow-up activities
(4) description of the Cyber Incident, including the following, if known:
- date of Cyber Incident
- cause of Cyber Incident
- impact to Personally Identifiable Information
- impact to login credentials
- impact to Information Technology (IT) system architecture
- list of any impacted subsidiary or parent companies

(5) description of the current status of the Mortgagee's Cyber Incident response, including whether law enforcement has been notified.

c. Fraud, Misrepresentation, and Other Findings (11/10/2026)

i. Definitions

(A) Finding

A Finding is a determination of defect by the Mortgagee.

(B) Material Finding

In the context of mortgage origination and underwriting, a Finding is Material if disclosure of the Finding would have altered the Mortgagee's decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage.

In the context of mortgage servicing, a Finding is Material if it has an adverse impact on the Property and/or FHA.

(C) Mitigated Finding

In the context of mortgage origination and underwriting, a Finding has been Mitigated if the Mortgagee has adequately addressed the deficiencies underlying the Finding, and such deficiencies have been remedied so that the Mortgagee's decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage is acceptable to FHA.

In the context of mortgage servicing, a Finding has been Mitigated if the Mortgagee has adequately addressed the deficiencies underlying the Finding, and such deficiencies have been remedied through mortgage servicing actions taken by the Mortgagee so there is no longer an adverse impact on the Property and/or FHA.

ii. Standard

The Mortgagee must monitor all FHA-insured Mortgages it originates, underwrites, services, or purchases, including those Mortgages originated by sponsored Third-Party Originators (TPO), for potential fraud, material misrepresentations, or other Material Findings.

Suspected instances of fraud, material misrepresentations, and other Material Findings must be investigated and documented by the Mortgagee's QC team, who must determine whether or not fraud or material misrepresentation actually occurred, or whether Material Findings exist.

iii. Internal Reporting to Senior Management

The Mortgagee's written QC Plan must contain a process for QC staff to report Findings identified through the QC process to senior management that complies with the following requirements.

(A) Time Frame for Reporting

For all Mortgages selected, Mortgagees must complete the initial Findings report within 60 Days of the date of selection.

Initial review Findings must be reported to the Mortgagee's senior management within 30 Days of completion of the initial Findings report.

The Mortgagee's final Findings report must be issued within 60 Days of the date the initial review Findings were reported to senior management.

(B) Corrective Action Plan

Mortgagee senior management must review and respond to each instance of fraud, material misrepresentation, or other Material Finding. The Mortgagee's final report must identify the corrective and curative actions being taken, the timetable for completion, and any planned follow-up activities.

(C) Follow Up

The Mortgagee must discuss all Findings with the responsible party(ies) in order to ensure corrective action and to prevent similar Findings from occurring in the future.

iv. External Reporting to FHA

(A) Fraud and Material Misrepresentation

The Mortgagee must report to FHA all Findings of fraud and material misrepresentation.

(B) Material Findings

The Mortgagee must report to FHA all Material Findings concerning the origination, underwriting, or servicing of a Mortgage that the Mortgagee is unable to mitigate.

(C) Mitigated Findings

Findings that do not involve fraud or material misrepresentation and were already Mitigated by the Mortgagee do not have to be reported to FHA.

(D) Time Frame for Reporting

The Mortgagee must report all Findings of fraud or material misrepresentation to FHA immediately.

The Mortgagee must report all other Material Findings that the Mortgagee is unable to mitigate to FHA no later than 90 Days after the completion of the initial Findings report.

(E) Corrective Action Plan

For all Findings that must be reported, the Mortgagee must identify what actions have been taken to attempt to mitigate each Finding, and report any planned or pending follow-up activities.

(F) Method of Reporting

(1) Title II Mortgages

The Title II Mortgagee must use the Self-Report feature in the Loan Review System (LRS) to report Title II Mortgage Findings to FHA. FHA may request supporting documentation, including the endorsement case binder, the QC report, and any other documentation necessary for FHA to fully evaluate the Finding.

(2) Title I Loans

The Title I Lender must make a Report of Non-compliant Activities to report Title I Loan Findings to FHA. The Report must be on the Title I Lender's letterhead and detail the Finding(s) and Corrective Action Plan. The report must contain the following information, if applicable, to assist in any FHA review:

- Title I Loan number
- Borrower name, address and telephone number
- Property address
- Loan amount
- Loan date
- Property inspection date
- Title I Lender loan number
- Loan officer
- Dealer name, address, telephone number, and Taxpayer Identification Number (TIN)
- Manufactured Home Loan retailer name, address, and telephone number

The report must be sent to:

Housing Office of Lender Activities and Program Compliance
Attn: Director, Quality Assurance Division
Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

If the Title I Loan has been insured by HUD, the insurance on the Title I Loan will stay in effect. If the Non-Compliant activity was caused or sanctioned by an employee of a Title I Lender, HUD may request that the Title I Lender indemnify HUD for any loss sustained, or may impose other sanctions against the Title I Lender.

(G) Suspected HUD Involvement

If the Mortgagee suspects HUD employees or contractors were involved in fraud or material misrepresentation, the Mortgagee must refer the matter directly to HUD's Office of Inspector General (OIG). All referrals to the OIG should be made to the OIG Hotline's call center at 1-800-347-3735 or via the OIG Hotline's website at www.hudoig.gov/hotline.

v. Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

3. Loan Level Quality Control Program Requirements

Mortgagees must perform QC reviews of FHA-insured Mortgages the Mortgagee and its Affiliates originate, underwrite, or service.

a. Loan File Selection (06/23/2026)

i. Time Frame for Selection and Review

(A) Pre-closing Reviews

Mortgagees must select Mortgages for pre-closing reviews during each month. Mortgages selected for pre-closing review must be reviewed after the Mortgage is approved by an FHA Direct Endorsement (DE) underwriter, and prior to closing.

(B) Post-closing Reviews

Mortgagees must select Mortgages for post-closing reviews on a monthly basis. The selection must be comprised of loans closed in the prior one-month period. Mortgages selected must be reviewed within 60 Days from the end of the prior one-month period.

(C) Early Payment Default Reviews

Mortgagees must select Early Payment Defaults (EPD) for review on a monthly basis. EPDs selected must be reviewed within 60 Days from the end of the month in which the loan was selected.

(D) Servicing Reviews

Mortgagees must select Mortgages for servicing reviews on a monthly basis. Mortgages selected for servicing reviews must be reviewed within 60 Days from the end of the month in which the loan was selected.

ii. Scope

The Mortgagee's QC Plan must provide for the thorough evaluation of all Loan Administration functions for which the Mortgagee is responsible. The Mortgagee must expand the scope of the QC review as appropriate when fraud or patterns of deficiencies are uncovered.

iii. Sample Size Standard

The Mortgagee's QC Plan must provide for a combination of both pre-closing and post-closing reviews. The Mortgagee's QC Plan must provide for review of an appropriately sized, statistically valid sample that complies with the following.

The Mortgagee must calculate its FHA QC sample size separately for FHA-insured Mortgages it originates/underwrites versus services.

(A) 3,500 or Fewer FHA-Insured Mortgages per Year

Mortgagees that originate/underwrite or service 3,500 or fewer FHA-insured Mortgages per year must review a minimum of 10 percent of the FHA-insured Mortgages the Mortgagee originates/underwrites or services.

(B) More Than 3,500 FHA-Insured Mortgages per Year

Mortgagees that originate/underwrite or service more than 3,500 FHA Mortgages per year must review either 10 percent of the FHA-insured Mortgages the Mortgagee originates/underwrites or services, or a stratified random sample that is of sufficient size to ensure a 95 percent confidence level with a confidence interval not to exceed 2 percent on an annual basis, based on the defect rates for FHA-insured Mortgages recently reviewed by the Mortgagee.

For origination and underwriting reviews, the stratification should be based on mortgage product type and the source of origination. For servicing reviews, the stratification should be based on servicing functions in the following categories: general servicing; default management and loss mitigation; escrow administration; foreclosure administration; and claims.

(C) Percent of Pre- and Post-closing Reviews

The Mortgagee's required FHA QC sample size must comply with the following balance of pre- and post-closing reviews:

Type of Review	% of FHA QC Sample Size
Pre-closing Review	10% or less
Post-closing Review	90% or more

(D) Exception

Mortgagees that close nine or fewer loans during the prior one-month period must select a minimum of one loan each month for pre-closing review.

iv. Sample Composition Standard

The Mortgagee's QC Plan must contain provisions to select FHA-insured Mortgages for review via random, EPDs, and discretionary sample selection methods that meet the following conditions. Only random and discretionary samples may be included in the sample size standard.

(A) Random

The Mortgagee must select FHA-insured Mortgages through the use of statistical sampling such that each of the Mortgagee's FHA-insured Mortgages has an equal chance of being selected. The random sample must be drawn from all of the Mortgagee's FHA-insured Mortgages, regardless of origination source or program type.

(B) Early Payment Defaults

(1) Definition

Early Payment Defaults (EPD) are all Mortgages that become 60 Days delinquent within the first six payments.

(2) Standard

The Mortgagee must review *all* EPDs underwritten by the Mortgagee, regardless of which Mortgagee services the Mortgage, unless the EPDs are covered by the exception below.

Title II Mortgagees may use Neighborhood Watch to assist with identifying EPDs.

(3) Exception for Mortgages Impacted by Presidentially-Declared Major Disasters

The Mortgagee is not required to review EPDs that:

- are secured by Properties located in a Presidentially-Declared Major Disaster Area (PDMDA);
- have a mortgage Closing Date before the Incident Period start date (as defined by FEMA); and
- become EPDs after the incident Period start date.

(C) Discretionary

The Mortgagee must focus discretionary samples on programs, participants, or sources that represent a high level of risk, which may include disproportionate loan volume, default rates, new relationships, or concentration in soft market areas.

v. Required Documentation

The Mortgagee must document how the sample size and selections were determined.

b. Loan Sample Risk Assessment (09/14/2015)

i. Definition

A Loan Sample Risk Assessment is a method of evaluating loans selected for QC on the basis of the severity of the violations found during QC reviews.

ii. Standard

Mortgagees must establish a Loan Sample Risk Assessment methodology. At a minimum, the methodology must include the categories of risk described below.

The Mortgagee must compare one month's QC sample to previous QC samples in order to conduct trend analysis.

iii. Risk Categories

(A) Low Risk

No issues or minor variances were identified with the origination, underwriting, or servicing of the Mortgage.

(B) Moderate Risk

The records contained unresolved questions or missing documentation. Issues were identified pertaining to processing, documentation, or decisions made during Loan Administration, but none were material. Failure to resolve these issues created a moderate risk to the Mortgagee and to FHA.

(C) Material Risk

The issues identified during the review contained Material Findings which represent an unacceptable level of risk.

iv. Required Documentation

The Mortgagee must document the methodology used to establish the loan sample risk assessment system and conduct trend analysis.

c. Origination and Underwriting Case Binder Compliance Review (06/23/2026)

i. Minimum Requirements

At a minimum, Mortgagees must include the following areas in their QC review to ensure they meet the requirements outlined in the Title II Insured Housing Programs Forward Mortgages section or the Title I Insured Programs - Property Improvement Loan Program or Manufactured Home Loan Program section(s):

Requirement	TII Pre-closing Review	TII Post-closing Review	Title I Review
Appraisal	✓	✓	✓
Mortgage application, eligibility, and underwriting documents	✓	✓	✓
Disclosures and legal compliance	✓	✓	✓
Mortgage origination documents	✓	✓	✓
Handling of mortgage documents	✓	✓	✓
Borrower occupancy		✓	✓*
Credit reports	✓	✓	✓
Outstanding debt obligations	✓	✓	✓
Verifications of employment and deposit	✓	✓	✓
Self-employed Borrowers	✓	✓	✓
Borrower's source of funds	✓	✓	✓
Underwriting accuracy and completeness, including compensating factors	✓	✓	✓
Property improvement loan completion certificates and inspections of completed improvements			✓
Form HUD-56002-MH, *Placement Certificate for Manufactured Home,* and site-of-placement inspection			✓**
Property improvement loan proceeds use eligibility			✓
Post-Disbursement inspections on property improvements or manufactured home installation			✓
Property Flipping restrictions	✓	✓	
Prohibited restrictive covenants	✓	✓	
Qualified Mortgage (QM)	✓	✓	
Loan estimate	✓	✓	✓
Discrepancies in the case binder	✓	✓	✓
Condition clearance	✓	✓	✓
Closing procedures and documents		✓	✓

Requirement	TII Pre-closing Review	TII Post-closing Review	Title I Review
Closing Disclosure or other similar legal document		✓	✓
Pre-endorsement review		✓	
Timely submission for insurance		✓	✓

* Applies when the Property is a Manufactured Home (including Manufactured Homes with a Property Improvement Loan)
** Applies only to Manufactured Home Loans

ii. Document Review and Reverification

A Mortgagee's QC Plan for origination and underwriting must provide for the review and reverification of the following information on all FHA-insured Mortgages selected for pre-closing and post-closing review, unless otherwise specified below.

(A) Credit Report

(1) Standard

For all post-closing reviews, the Mortgagee must obtain a new credit report in the same form as the original credit report used to approve the Mortgage, including a Residential Mortgage Credit Report (RMCR), a Tri-Merged Credit Report (TRMCR), or, when appropriate, a business credit report for each Borrower whose FHA-insured Mortgage is selected for review. The new credit report must comply with the credit report standards described in the Credit Report(s) section. The Mortgagee must compare the new credit report obtained with the original credit report used to approve the Mortgage, and determine whether any discrepancies exist between the reports that may adversely affect the Borrower's eligibility to qualify for an FHA-insured Mortgage.

If discrepancies exist between the credit reports that may adversely affect the Borrower's eligibility to qualify for an FHA-insured Mortgage, then the Mortgagee must obtain a second, full RMCR.

(2) Exceptions

A new credit report does not have to be obtained for pre-closing reviews, or for non-credit qualifying Streamline Refinances.

(3) Required Documentation

The Mortgagee must retain a copy of the new credit report(s).

(B) Income, Employment, Asset, and Housing Expense Information

(1) Reverification

(a) Standard

For all post-closing reviews, the Mortgagee must analyze the validity and sufficiency of all documents contained in the loan file. The Mortgagee must reverify, in writing or electronically if available, the following:

- employment;
- income;
- assets;
- gift funds;
- source of funds; and
- Mortgage Payments or rental payments.

If a written or electronic reverification request is not returned to the Mortgagee, the Mortgagee must attempt a telephone reverification. Reverification is not required for pre-closing reviews.

(b) Required Documentation

The Mortgagee must retain evidence of the written, electronic, or telephone verification, and document the due diligence.

(2) Discrepancies

(a) Standard

The Mortgagee must evaluate all discrepancies to ensure that the original documents (except blanket verification releases) were completed before being signed, were as represented, were not handled by Interested Parties, and that all corrections were proper and initialed. All conflicting information in the original documentation must be resolved with the underwriter. Discrepancies in documentation discovered during pre-closing reviews must be resolved prior to closing.

(i) Exception for Mortgagees and Third-Party Originators

The Mortgagee and TPO are permitted to handle reverifications, provided the Mortgagee or TPO is not the seller, real estate agent, builder, or developer.

(b) Required Documentation

The Mortgagee must document any discrepancies and retain copies of information used to resolve such discrepancies.

(C) Property and Appraisals

(1) Standard

(a) Property and Appraisal Reviews

For all FHA-insured Mortgages selected by the Mortgagee for origination and underwriting QC review, the Mortgagee must evaluate all Property documentation and the appraisal report used to support the Property Value and eligibility for FHA insurance.

At a minimum, the Mortgagee must review all Property documentation and the appraisal report for completeness, technical accuracy, and overall quality in compliance with Property Acceptability Criteria for forward Mortgages, Property Acceptability Criteria for Reverse Mortgages, and Appraiser and Property Requirements for Title II Forward and Reverse Mortgages.

The Mortgagee should use valuation tools, Automated Valuation Models (AVM), multiple listing service data, public records data, and any other appropriate methods to identify potential valuation errors or other compliance issues.

(b) Field Reviews

The Mortgagee may obtain appraisal field reviews if needed to adequately access the appraisal report for compliance with all applicable requirements.

Field reviews must be performed by Appraisers listed on the FHA Appraiser Roster and must be reported on the applicable Residential Appraisal Field Review Report form or report.

(2) Exception [Text was deleted in this section.]

Mortgagees are not required to perform the property and appraisal QC review for Streamline Refinances where the Mortgagee was not required to order a new appraisal for a Property financed with an FHA-insured Mortgage.

(3) Required Documentation

The Mortgagee must retain all results from the property and appraisal QC reviews required by this section, including any reports from valuation tools or appraisal field reviews. Results include all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

(D) Title I Loan Disbursement

(1) Standard

For all QC post-closing and Early Payment Default (EPD) reviews of Title I Insured Programs- Manufactured Home Loan Program and Property Improvement Loan Program, the Title I Lender must determine that the Disbursement of loan proceeds was adequately documented in the case binder and the Disbursement was completed in accordance with FHA requirements. The Title I Lender must also determine that Disbursements to a Borrower or Dealer were made in accordance with FHA requirements.

(2) Required Documentation

The Title I Lender must document any discrepancies and retain copies of information used to resolve such discrepancies.

d. Quality Control Reviews of Specialized Mortgage Programs (10/15/2019)

i. Standard

QC reviews of specialized mortgage programs (e.g., 203(k), Home Equity Conversion Mortgages (HECM), Energy Efficient Mortgages (EEM), Condominiums, Condominium Project Approvals, etc.) must monitor compliance with FHA requirements specific to those programs.

ii. Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

e. Servicing Loan File Compliance Review (05/09/2022)

i. Minimum Requirements

Mortgagees must review all aspects of their servicing operations, including a review of subserviced Mortgages and activities as they relate to FHA-insured Mortgages, to guarantee that all FHA servicing and loss mitigation requirements are being met. At a minimum, Mortgagees must include the following elements in their QC review to ensure they meet the requirements outlined in the Servicing and Loss Mitigation and Claims and Disposition:

Requirement	Title II Review	Title I Review
Servicing Records	✓	✓
Document Retention and Legibility	✓	✓
Nondiscrimination Policies	✓	✓

Requirement	Title II Review	Title I Review
Borrower Requests, Compliance and Escalated Cases	✓	✓
Fees	✓	✓
Transfer of Servicing Notification and Records	✓	✓
Documentation of Purchased or Acquired Mortgages	✓	✓
Mortgage Record Changes	✓	✓
Escrow Account Functions	✓	✓
Force-placed Insurance	✓	✓
Prepayments	✓	✓
MIP	✓	✓
Early Default Intervention	✓	✓
Loss Mitigation	✓	✓
Collection Activities	✓	✓
Reporting to Credit Repositories	✓	✓
Home Retention Option Priority Order (Waterfall)	✓	
Home Disposition Options	✓	
Claims for Insurance Benefits	✓	✓
Claims Without Conveyance of Title (CWCOT)	✓	
Foreclosure Proceedings	✓	✓
Property Preservation and Conveyance	✓	✓
Deficiency Judgments	✓	✓
Single Family Default Monitoring System (SFDMS) Reporting	✓	
Adjustable Rate Mortgages (ARM)	✓	
Assumptions	✓	✓
Presidentially-Declared Major Disaster Areas (PDMDA)	✓	
Hawaiian Home Land Mortgages (Section 247 Mortgages)	✓	
Section 184 Indian Housing Loans	✓	
Section 222 Mortgages	✓	
Good Neighbor Next Door	✓	
Servicemembers Civil Relief Act (SCRA)	✓	
Section 235 Mortgages	✓	
Section 203(k) Mortgages	✓	
Servicing of HECM	✓	

f. Ineligible Participants (05/09/2022)

i. Origination and Underwriting Reviews

(A) Standard

The Mortgagee must verify that none of the participants in the mortgage transactions reviewed were debarred, suspended, under an LDP for the FHA program and jurisdiction, or otherwise ineligible to participate in an FHA transaction. This includes participants in an assumption transaction.

Participants in a mortgage transaction may include, but are not limited to, the:

- seller (excluding the seller of a Principal Residence)
- listing and selling real estate agent
- loan originator
- Dealer
- retailer involved in a Manufactured Home Loan
- loan processor
- underwriter
- Appraiser
- 203(k) Consultant
- Closing Agent
- title company

The Mortgagee must verify participant eligibility using the SAM Excluded Parties List, the LDP List, and NMLS, as applicable.

(B) Required Documentation

The Mortgagee must maintain documentation that supports each participant's eligibility.

ii. Servicing Reviews

(A) Standard

The Mortgagee must verify that none of the participants in the servicing transactions reviewed were debarred, suspended, under an LDP for the FHA program and jurisdiction, or otherwise ineligible to participate in an FHA transaction. This includes participants in a loss mitigation transaction.

Participants in a servicing transaction may include, but are not limited to:

- Borrowers applying for a Loss Mitigation Option
- underwriters
- real estate brokers
- Closing Agent
- title company
- employees of the Mortgagee, or Affiliates participating in HUD programs for or on behalf of the Mortgagee, who have influence or control over the evaluation, approval, or outcome of the servicing loss mitigation, or claims transaction.

The Mortgagee must verify participant eligibility using the SAM Excluded Parties List and the LDP List, as applicable.

(B) Required Documentation

The Mortgagee must maintain copies of each participant's eligibility verification printouts.

4. Data Integrity

a. Standard (09/14/2015)

The Mortgagee's QC program must include a review of the completeness and accuracy of the information obtained for each Mortgage for all aspects of the Loan Administration process for which a QC sample is selected. The Mortgagee must report all Findings internally to senior management, and to FHA where appropriate.

i. Origination and Underwriting Information

For origination and underwriting, the review must validate all data elements submitted through the Automated Underwriting System (AUS), Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, and FHA Connection (FHAC), and validate that documentation exists in the loan file to support all data used to underwrite the Mortgage.

ii. Endorsement and Insurance Information

For endorsement, the review must validate all data elements submitted through FHAC, and validate that documentation exists in the loan file to support all data used to endorse and insure the Mortgage.

iii. Servicing Information

For servicing, the review must validate mortgage information submitted through FHAC, SFDMS, or Home Equity Reverse Mortgage Information Technology (HERMIT), as applicable.

b. Required Documentation (09/14/2015)

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

B. QUALITY CONTROL OF OTHER PARTICIPANTS

1. Direct Endorsement Underwriter (03/14/2016)

The Direct Endorsement (DE) underwriter is not required to perform any individual Quality Control (QC) reviews. The DE underwriter must review any finding made in the Mortgagee's QC reviews performed in accordance with the Loan Level Quality Control Program Requirements concerning loans underwritten by the DE underwriter.

2. Nonprofits and Governmental Entities

a. Quality Control Plan Overview (03/14/2016)

i. Definition

A Quality Control (QC) Plan outlines the processes and procedures used by the nonprofit to monitor its compliance with FHA nonprofit program guidelines.

A Finding refers to a determination of defect by the nonprofit agency.

ii. Standard

The nonprofit must develop and implement a QC Plan that explains its internal and external audit and monitoring procedures and must fully comply with the requirements in the Doing Business with FHA – Nonprofits section. The QC Plan must include the nonprofit's reports, any reports of fraud, corrective action plans, and review procedures.

The nonprofit must maintain and update its QC Plan as needed to ensure it remains fully compliant with all applicable FHA requirements.

iii. Required Documentation

The nonprofit must retain all QC review results, including all selection criteria, review documentation, Findings, and corrective actions taken to mitigate or resolve Findings. This documentation must be maintained for a minimum of three years. The nonprofit must make all documentation relating to its QC Plan available to FHA at any time upon request.

b. Quality Control Plan Findings and Corrective Action (03/14/2016)

i. Records of Quality Control Findings

The nonprofit must maintain records of QC Findings and actions taken, periodic reports, and review procedures. Reports must identify areas of deficiency, including the agency's policies and procedures, errors and omissions, and unacceptable patterns or trends. All violations of law or regulation, any known false statement, or fraud or program abuse must be reported to FHA, the Office of Inspector General (OIG), and the appropriate federal, state or local law enforcement agency.

ii. Corrective Action

The nonprofit must maintain a copy of the corrective actions taken when Findings are discovered. Findings that result in changes to managerial staff or expose any deviance to previously approved processes must be brought to the attention of FHA upon discovery.

c. Fraud, Misrepresentation, and Other Findings (03/14/2016)

i. Standard

The nonprofit must take prompt, effective, and corrective measures to investigate and document suspected instances of fraud, misrepresentation, and other related Findings.

ii. Internal Reporting to Senior Management

The nonprofit's QC Plan must contain a process for its QC staff to promptly report and document Findings delivered to senior management. Nonprofit staff must report Findings to senior management no more than 15 business days from the date of discovery.

iii. External Reporting to FHA

The nonprofit's senior management must contact the FHA Resource Center at answers@hud.gov to submit QC Findings. FHA will review the Findings and determine the appropriate course of action.

3. Real Estate Brokers (09/30/2016)

HUD's Asset Manager (AM) and FHA staff are responsible for quality control and monitoring procedures for HUD-Registered Real Estate Brokers.

4. Closing Agents (09/30/2016)

HUD's AM and FHA staff are responsible for quality control and monitoring procedures for Closing Agents.

5. Title I Dealers – Property Improvement Loans (05/09/2022)

For Quality Control requirements for Title I Dealers for Property Improvement Loans, see Monitoring the Dealer.

6. Title I Dealers – Manufactured Home Loans (05/09/2022)

For Quality Control requirements for Title I Dealers for Manufactured Home Loans, see Monitoring the Dealer.

C. MORTGAGEE MONITORING

1. Cooperation with HUD Investigations and Reviews (09/14/2015)

Mortgagees must fully cooperate with any investigation(s) or review(s) undertaken by HUD. Mortgagees must make all Corporate Officers and employees available for interviews and provide information and documents requested by HUD in the format and time frame requested.

2. Institutional Mortgagee Monitoring

a. Title I Lender Monitoring Reviews (05/09/2022)

i. Notice

Title I Lenders are given notice prior to FHA monitoring reviews.

ii. Production of Case Binders and Records

Title I Lenders must have the files requested by FHA available for review. The Title I Lender must provide all records related to the Loans selected for review, including any and all files, whether hard copy or stored, in the Title I Lender's systems that include data or information on the specific Loans identified.

iii. Scope

FHA will, in its sole discretion, determine the scope of any monitoring review. FHA may conduct limited reviews of a Title I Lender's origination, underwriting, and servicing of FHA-insured Loans, or more comprehensive reviews that include not just the Title I Lender's files, records, and practices, but also the Title I Lender's overall operations and policies with respect to Lender relationships, QC and risk management, escrow administration, wholesale Loans, and certain FHA product lines.

iv. Findings

At the conclusion of a monitoring review, FHA will discuss Findings with the Title I Lender. FHA will provide the Title I Lender with notification of identified Findings, if any, and specify the remedies and responses that are required.

b. Title II Mortgagee Monitoring Reviews (04/10/2025)

i. Notice

FHA provides Mortgagees with notice prior to FHA monitoring reviews. Such notice may be transmitted via email to the Mortgagee's administrative contact, which is described in the Doing Business with FHA section. The Mortgagee may access the Loan Review System (LRS) for detailed information about such monitoring reviews.

ii. Production of Loan Files and Records

Mortgagees must have the files requested by FHA available for review. The Mortgagee must provide all records related to the loans selected for review, including any and all files, whether hard copy or stored, in the Mortgagee's systems that include data or information on the specific loans identified.

iii. Scope

FHA will, in its sole discretion, determine the scope of any monitoring review. FHA may conduct limited reviews of a Mortgagee's origination, underwriting, and servicing of FHA-insured Single Family Mortgages, or more comprehensive reviews that include not just the Mortgagee's files, records, and practices, but also the Mortgagee's overall operations and policies with respect to Mortgagee relationships, quality control and risk management, escrow administration, wholesale Mortgages, and certain FHA product lines.

iv. Findings

At the conclusion of a monitoring review, FHA will document any identified Findings in the LRS and will specify the remedies and response that are required from the Mortgagee. For reviews of mortgages conducted as part of a monitoring review, results will be documented in accordance with the Title II Loan Reviews Findings section.

Notwithstanding the standard process described above, FHA may refer any Finding for administrative or other enforcement action as described in Referrals for Noncompliance, with or without documenting Findings in the LRS.

c. Servicer Tier Ranking System II (02/16/2021)

i. Definition

The Tier Ranking System (TRS) II is a methodology for quantifying a Mortgagee's performance in complying with HUD's Loss Mitigation and Delinquent servicing policies.

ii. Standard

TRS II evaluates Mortgagees' overall performance in Delinquent mortgage servicing, based on the following elements:

- foreclosure prevention: evaluates a Mortgagee's foreclosure initiation actions, time frames, and intervention practices;
- Re-Defaults: evaluates and scores the performance of cases after a mortgage modification or Partial Claim incentive claim is filed with and processed by HUD, or after a non-incentivized modification is reported to HUD;
- SFDMS reporting: evaluates if a Mortgagee is reporting on all open Defaults and evaluates the number of fatal errors committed by the Mortgagee; and

- loss mitigation engagement: measures the Mortgagee's formal and informal loss mitigation engagement and indirectly measures early engagement in loss mitigation.

See TRS II – Scorecard Calculation Methodology – Servicer Narrative for complete instructions.

iii. Who Will Be Scored

(A) Eligibility

HUD scores and classifies all Mortgagees as a Public Scorer, Public Provisional Scorer or Private Scorer.

A Mortgagee must have a continual 12 months of performance or is automatically opted out for that fiscal year's scores. In addition, a Mortgagee must meet the criteria of either Public Scorer or Public Provisional Scorer to be eligible for increased incentives.

A Mortgagee who is contemplating and/or anticipating an institution level acquisition or merger may contact HUD at answers@hud.gov to discuss scoring impacts and ramifications. For more information about transferor and transferee responsibilities during an acquisition or merger, see Responsibility for Servicing Actions.

(1) Public Scorer

A Mortgagee will be classified as a Public Scorer when the Mortgagee:

- is approved to service Single Family Mortgages;
- has an active approval status; and
- is the Servicer of record for a seriously delinquent portfolio of more than 25 Mortgages.

A Mortgagee classified as a Public Scorer has no option to opt out. The Mortgagee's final fiscal year end score will be made available to the public and is eligible for increased incentives associated with achieving a Tier 1.

(2) Public Provisional Scorer

A Mortgagee will be classified as a Public Provisional Scorer when the Mortgagee:

- is approved to service Single Family Mortgages;
- has an active approval status; and
- is the Servicer of record for a seriously delinquent portfolio of between 5 and 25 Mortgages.

A Mortgagee classified as a Public Provisional Scorer has the option to opt out. The Mortgagee's final fiscal year end score will be made available to the public if

the opt-out option is not exercised and is eligible for increased incentives associated with achieving a Tier 1.

(3) Private Scorer

A Mortgagee will be classified as a Private Scorer when the Mortgagee is the Servicer of record for a seriously delinquent portfolio of less than five Mortgages.

A Mortgagee classified as a Private Scorer is automatically opted out. The Mortgagee's final fiscal year end score will not be made available to the public and is not eligible for increased incentives associated with achieving a Tier 1.

(B) Who Receives the Score

Mortgagees are scored on specific case performance on four TRS II elements as the Servicer of record per HUD's insurance system when any of the following is triggered:

- SFDMS reporting: the Mortgagee that is the Servicer of record and is performing loss mitigation for the current default episode;
- loss mitigation engagement: the Mortgagee that executes the Loss Mitigation Option, or files the claim;
- foreclosure prevention: the Mortgagee that initiates the foreclosure; or
- Re-Defaults: the Mortgagee that executed the initial Loss Mitigation Option prior to the Re-Default.

Additional information related to this can also be found in the TRS II – Scorecard Calculation Methodology – Servicer Narrative.

(C) Process to Opt Out

The Mortgagee must determine if it qualifies to opt out. To request to opt out of scoring, the Mortgagee must submit a request to HUD via email to answers@hud.gov, no later than October 31 of each calendar year for which the Mortgagee requests to opt out of scoring. The Mortgagee must include in the request:

- "TRS II Opt Out" in the subject line of their email; and
- their Mortgagee five-digit ID number.

Once HUD verifies the Mortgagee's status, the Mortgagee will receive a confirmation email that the Mortgagee has opted out of scoring for the fiscal year.

(D) Use of Scores

HUD will continue to score all Mortgagees. Scores for Public Provisional Mortgagees who have exercised the opt-out option and for Private Scorers will be used for informational purposes and HUD audits.

HUD will not make publicly available the scores of Mortgagees who have opted out of scoring.

iv. Tier Ranking System II Element Calculations

Mortgagees may calculate their own TRS II scores by following the instructions provided in the TRS II – Scorecard Calculation Methodology – Servicer Narrative.

v. Extra Credit

The Mortgagee may receive extra credit added to their final fiscal year end score by attending, participating in, and/or completing delinquent servicing training pursuant to the attendance and completion requirements in the TRS II – Scorecard Calculation Methodology – Servicer Narrative.

vi. Scores, Grades, and Tiers

HUD evaluates each scoring element separately, based on activity for each month in the quarter, and then averages the elements for a quarterly score.

HUD will provide Mortgagees with a TRS II Scorecard each quarter, along with a corresponding letter grade and tier ranking. HUD will average quarterly scores to produce a final annual fiscal year score and grade.

Final Fiscal Score	Assigned Grade	Corresponding Tier
90.00% - 100.00+%	A	1
80.00% - 89.99%	B	2
70.00% - 79.99%	C	3
60.00% - 69.99%	D	3
59.99% or Less	F	4

vii. Notification of Tier Ranking System II Scores

Mortgagees will receive notice that quarterly TRS II scores are available via email after the conclusion of each fiscal year quarter. See the TRS II – Scorecard Calculation Methodology – Servicer Narrative for information on how to receive these quarterly notices.

viii. Appeals

(A) Basis for Appeals

The only basis for an appeal by the Mortgagee receiving an “F”/Tier 4 is disagreement with the data used by HUD to calculate the Mortgagee’s grade. If HUD determines that the Mortgagee’s “F”/Tier 4 grade rating was based on incorrect or incomplete data, HUD will recalculate the Mortgagee’s performance and will provide a corrected score.

(B) Time Frame

Mortgagees receiving a grade of "F"/Tier 4 may appeal their final score no later than 30 Days after the issue date of the final fiscal year grade.

(C) Process

The Mortgagee must submit the appeal to HUD's Deputy Assistant Secretary for Single Family Housing or their designee and request an informal HUD conference.

ix. Public Availability of Scores and Grades

All scored Mortgagees, except those which have chosen to opt out, will have their names and scores published on HUD's Tier Ranking System website at the close of each calendar year, after all Appeals have been evaluated and after Mortgagees that have submitted appeals have been notified of the decision.

x. Increased Incentives

A Mortgagee earning a final annual fiscal year grade of "A" and Tier 1 score may qualify for increased incentives for the following calendar year.

d. DELRAP Mortgagee Monitoring Reviews (10/15/2019)

i. Types of DELRAP Mortgagee Monitoring Reviews

(A) Periodic Review

A Periodic Review refers to the monitoring of the work performed by the DELRAP Mortgagee and its DELRAP staff reviewer to ensure compliance with FHA requirements.

(B) Post-Action Review

A Post-Action Review refers to evaluations of submitted Unconditional DELRAP Authority packages.

ii. Production of Files and Records

A DELRAP Mortgagee must provide all information and files requested by FHA to assist in a Periodic Review or Post-Action Review.

iii. Scope

Condominium Project approvals, denials or recertifications may be selected for review.

iv. Findings

At the conclusion of a Periodic Review or Post-Action Review, FHA will discuss the results with the DELRAP Mortgagee. FHA will provide the DELRAP Mortgagee with notification of the completion of the review and, if applicable, specify the remedies and response that is required from the DELRAP Mortgagee.

3. Loan Level Monitoring

a. Title I Loan Reviews (05/09/2022)

i. Notice

FHA will notify Title I Lenders of its intent to review the Title I Loan.

ii. Production of Case Binders

The Title I Lender must provide the requested case binder within 10 business days of FHA's transmittal of a request.

iii. Scope

Title I Loan reviews consist of, but are not limited to, the Title I Lender's compliance with FHA guidelines and an assessment of whether the Loan represents an unacceptable level of risk to FHA.

iv. Findings

At the conclusion of the review, FHA will provide the Title I Lender with notification of the identified Findings, if any, and specify the remedies and responses that are required.

b. Title II Loan Reviews (04/10/2025)

i. Notice

FHA will notify Mortgagees with Lender Insurance (LI) authority daily via email of its intent to review the Mortgagee's LI case binders. Mortgagees that do not have LI Authority can view loans selected for review in the Loan Review System (LRS) on the Insurance Application screen in FHAC.

ii. Production of Case Binders

If approved to submit electronic Case Binders (eCBs) to FHA, the Mortgagee must submit the case binder using eCB delivery.

Mortgagees not approved to submit eCBs to FHA must provide the requested case binder(s) using the FHA Catalyst: Case Binder Module to FHA.

All case binders must be submitted to FHA within 10 business days of FHA's transmittal of a request.

Failure of a Mortgagee with LI Authority to submit requested case binders may result in suspension of the Mortgagee's LI Authority.

iii. Scope

Title II loan reviews consist of, but are not limited to, the Mortgagee's compliance with FHA guidelines and an assessment of whether the Mortgage represents an unacceptable level of risk to FHA.

iv. Findings

FHA will document the results of each loan review in the LRS. Any Findings of noncompliance with Title II Insured Housing Program requirements will be identified in accordance with Appendix 8.0 – FHA Defect Taxonomy. For each unacceptable Finding, FHA will request a response and specify allowable remedies from the Mortgagee. The Mortgagee must resolve each unacceptable Finding by submitting a response and remedy requested through the LRS.

Notwithstanding the standard process described above, FHA may refer any Finding for administrative or other enforcement action as described in Referrals for Noncompliance, with or without documenting Findings in the LRS.

D. MONITORING OF OTHER PARTICIPANTS

1. Appraisers (03/27/2019)

FHA may perform periodic reviews of the work performed by FHA Roster Appraisers to ensure compliance with FHA requirements. FHA Roster Appraisers must provide any additional information requested by FHA to assist in properly evaluating the work performed.

2. 203(k) Consultants (03/14/2016)

FHA may perform periodic reviews of the work performed by 203(k) Consultants to ensure compliance with FHA requirements. 203(k) Consultants must provide any additional information requested by monitors to assist them in properly evaluating the work performed.

3. Nonprofits and Governmental Entities

a. Monitoring of Governmental Entities and HUD-Approved Nonprofits (03/14/2016)

FHA monitors Governmental Entities and HUD-approved Nonprofits that participate in FHA's nonprofit programs as part of its ongoing QC activities to ensure compliance with FHA requirements. FHA conducts remote and on-site reviews for monitoring purposes.

i. Notice

FHA will notify Governmental Entities and HUD-approved Nonprofits of its intent to conduct a review of their Affordable Housing Program (AHP) 30 Days prior to any review.

ii. Scope

FHA will, at its sole discretion, determine the scope of any monitoring review. These reviews may include, without limitation, a review of projects under development, the agency's internal control procedures, and adherence to the goals of the approved program.

iii. Production of Files and Records

Nonprofits must have the files requested by FHA available for review. FHA may request documentation regarding the nonprofit's progress in implementing its AHP(s).

FHA will make review requests in writing, providing the nonprofit with 30 Days to respond and accommodate such requests.

iv. Findings

Following the monitoring review, FHA will discuss Findings with the Governmental Entity or HUD-approved Nonprofit. FHA will provide notification of identified Findings, if any, and specify the remedies and response that is required.

b. Monitoring of HUD Homes Participants (03/14/2016)

FHA's review and monitoring activity will include a review of the AHPP and verification that HUD Homes purchased at a discount of 10 percent or greater are sold to persons at or below the applicable median income. FHA will review and monitor the program participant's Individual Property File and Net Development Costs (NDC). The NDCs are used to review program compliance and profit margins.

FHA will also monitor to ensure that savings under the HUD Homes program are passed on to Low- to Moderate-Income Borrowers.

FHA may request access to properties under development or otherwise a part of the nonprofit agency's AHP.

Additional Documentation Required for Review

The Governmental Entity or HUD-approved Nonprofit must have the Individual Property File and the following additional documentation available for FHA staff completing a review:

- bank statements and monthly reconciliations for the last two years;
- proof of payment documentation for the last two years;
- a current financial statement and evidence of funding sources;
- rental payment history and evidence of funding sources;
- general ledger entries for the last two years;
- contractor licenses and qualifications records;
- a Marketing Plan and evidence of marketing efforts;
- an AHPP; and
- a QC Plan and monitoring reports.

c. Monitoring FHA Mortgagor Participants (03/14/2016)

FHA reviews the nonprofit's mortgage performance under the program. FHA will monitor foreclosure rates, Default and evidence of fraud.

d. Monitoring of Secondary Financing Program Participants (03/14/2016)

FHA will review second lien performance. HUD-approved Nonprofit Mortgagees must identify second liens and their performance.

Additional Documentation Required for Review

Upon request, the Governmental Entity or nonprofit must provide copies of fully executed Closing Disclosures or similar legal documents, and recorded secondary financing documents.

4. Real Estate Brokers (09/30/2016)

HUD-Registered Real Estate Brokers will be monitored by the AM, who will report any deficiency or noncompliance issues to HUD for further investigation and/or action that may result in deactivation of the HUD-Registered Real Estate Broker's Name and Address Identification (NAID).

5. Closing Agents (09/30/2016)

Closing Agents will be monitored by the AM, who will report any deficiency or noncompliance issues to HUD for further investigation and/or action that may result in deactivation of the Closing Agent's Title ID number.

6. Additional Other Participants

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Other Participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

E. ENFORCEMENT

The following provides general information about the processes and procedures normally employed by FHA in its enforcement activities. The following is provided for informational purposes only and does not represent a waiver of any authority of FHA, HUD, or the federal government to carry out enforcement activities to the full extent of its authorities in connection with FHA's Single Family programs.

1. Referrals for Noncompliance (03/27/2019)

FHA may refer any finding for administrative or other enforcement action in its discretion. Referrals may be made to any appropriate body, including:

- HUD's Mortgagee Review Board (MRB);
- HUD's Office of Fair Housing and Equal Opportunity (FHEO) (fair lending issues);
- HUD's Departmental Enforcement Center (DEC) (suspension or debarment actions);
- HUD's OIG (suspected fraud or illegal activities);
- the Consumer Financial Protection Bureau (CFPB);
- the Department of Justice (DOJ); and/or
- state licensing agencies (e.g., Secretary of State, Real Estate Commissioner, Appraisal Review Board, Department of Banking, Bar Association, etc.).

2. Employee Improprieties Attributed to the Mortgagee (09/14/2015)

Criminal, fraudulent, or other seriously improper conduct by an officer, director, shareholder, partner, employee, or other individual associated with a Mortgagee may be attributed to the Mortgagee with which the individual is connected when the improper conduct occurred in connection to the individual's performance of duties for or on behalf of the Mortgagee, or with the Mortgagee's knowledge, approval, or acquiescence. Such impropriety may result in appropriate administrative sanctions against the Mortgagee.

3. Program Office Actions and Sanctions

FHA's Office of Single Family Housing is authorized to take the following enforcement actions against Mortgagees that do not comply with FHA requirements.

a. Actions and Sanctions Against Mortgagees (05/09/2022)

i. Probation of Title II Direct Endorsement Authority

FHA may place a Mortgagee on Direct Endorsement probation for a specified period of time for the purpose of evaluating the Mortgagee's compliance with the requirements of the Direct Endorsement Program. The scope of the probation depends upon the seriousness of the problems and deficiencies exhibited by the Mortgagee. For additional information on this authority, see 24 CFR § 203.3(d)(1). This action is separate and apart from probation imposed by the MRB.

(A) Scope

(1) Training

The Mortgagee's underwriter, or other technical staff, may be required to attend training sessions, as appropriate.

(2) Title II Loan Reviews

FHA may increase the percentage of the Mortgagee's cases subject to Title II Loan Reviews.

(3) Mortgagee Audit and Monitoring Review

FHA may require the Mortgagee to perform a review or audit of its underwriting processes, or to hire an independent third party to assess the Mortgagee's operational controls and systems, and report the results to FHA. FHA may also conduct an on-site monitoring review of the Mortgagee.

(4) Quality Control Plan

FHA may require the Mortgagee to make changes to its QC Plan.

(5) Test Case Phase Review Status

FHA may place a Mortgagee back in Test Case Phase review status and subject the Mortgagee's cases to technical underwriting reviews and *Firm Commitment* processing prior to endorsement. See Supplemental Mortgagee Authorities.

(a) Time Frame

Test Case Phase review status continues until the Mortgagee corrects its underwriting deficiencies or until the Mortgagee's Direct Endorsement approval is withdrawn.

(b) Cause

A return to Test Case Phase review status may result from, but is not limited to, the following circumstances:

- final Title II loan review results that demonstrate a Mortgagee's failure to follow FHA requirements;
- a pattern of fraud identified by FHA, of which the Mortgagee was aware, or should have been aware; or
- the results of on-site or other reviews of the Mortgagee.

(6) Additional Elements

FHA may impose additional elements of probation reasonably related to the Mortgagee's underlying violations that allow FHA to monitor the Mortgagee and assist FHA with bringing the Mortgagee into compliance with FHA regulations.

(B) Notice

FHA will send a written notice of probation to the Mortgagee. The probation notice will list the violations that precipitated the probation and explain the elements being applied to the Mortgagee's probation.

(C) Effective Date

Probation is effective immediately upon the receipt of the notice of probation by the Mortgagee.

ii. Withdrawal of Title II Direct Endorsement Authority

FHA may withdraw the Direct Endorsement authority of any Mortgagee that demonstrates a pattern or practice of failing to comply with FHA underwriting guidelines or program requirements. This action is separate and apart from the termination action described in the credit watch termination section.

(A) Scope

FHA may terminate a Mortgagee's approval to participate in the Direct Endorsement Program in a particular jurisdiction or on a nationwide basis.

(B) Notice and Appeal

FHA will provide the Mortgagee with written notice of the proposed withdrawal that identifies the grounds for the action and advises the Mortgagee of its right to an informal conference.

(1) Informal Conference

FHA will expeditiously arrange for a conference where the Mortgagee may present information and argument in opposition to the proposed withdrawal. The Mortgagee may be represented by counsel.

(2) Determination

After consideration of the material presented, FHA will issue a decision in writing stating whether the proposed termination is rescinded, modified, or affirmed.

(3) Appeal and Final Agency Action

The Mortgagee may appeal the decision to the Deputy Assistant Secretary (DAS) for Single Family Housing or their designee. A decision by the DAS for Single Family Housing or their designee constitutes final agency action.

iii. Credit Watch Termination of Title II Mortgagees

HUD may terminate a Mortgagee's authority to originate or underwrite FHA-insured Single Family Mortgages in any geographic area where the Mortgagee has an excessive rate of early defaults and claims in accordance with the Credit Watch Termination regulations at 24 CFR § 202.3(c)(2). Credit Watch Termination is separate and apart from any action that may be taken by the MRB.

(A) Frequency and Scope

FHA reviews the default and claim rate of FHA-insured Single Family Mortgages on a quarterly basis. FHA compares the rate of each participating Mortgagee with the rates of other Mortgagees in the same geographic area. The review is limited to Mortgages with an amortization date within the preceding 24 months.

(B) Cause

FHA may terminate the origination or underwriting authority of any Mortgagee whose default and claim rate exceeds both the national default and claim rate and 200 percent of the default and claim rate within the geographic area served by a HUD field office.

(C) Notice and Appeal

FHA will issue a Proposed Credit Watch Termination Notice to the Mortgagee prior to terminating the Mortgagee's approval. The Mortgagee may appeal the proposed termination by submitting a written request for an informal conference with the DAS for Single Family Housing or its designee within 30 Days of receipt of the Notice.

(1) Informal Conference

The Mortgagee or its representative may make an oral and/or written presentation to oppose the proposed termination. FHA will only consider presentations that specifically address relevant mitigating factors and present facts and circumstances to explain the Mortgagee's poor performance.

(2) Mitigating Factors

FHA will consider relevant mitigating factors in deciding whether to terminate a Mortgagee's origination and/or underwriting authority.

(3) Determination

After the informal conference, FHA will make a determination whether to sustain or withdraw the termination. FHA will notify the Mortgagee of its decision in writing via a Final Notice of Determination. If sustained, the termination will not take effect until the Mortgagee receives the Final Notice.

(4) Waiver of Appeal

If a Mortgagee does not request an informal conference within 30 Days of receiving the Proposed Credit Watch Termination Notice, the Mortgagee has waived its appeal and its authority will be terminated 60 Days from the date of the Proposed Credit Watch Termination Notice without further notice from HUD.

(D) Effect of Termination

A Mortgagee whose authority has been terminated under Credit Watch is prohibited from originating or underwriting FHA-insured Single Family Mortgages within the area of the HUD field office(s) listed in the Notice. The Mortgagee's general FHA approval and supplemental authorities remain unaffected. See Supplemental Mortgagee Authorities.

(1) Case Status

(a) Definition

An Approved Mortgage is a Mortgage underwritten and approved by a DE underwriter, or covered by a *Firm Commitment* issued by HUD.

(b) Standard

During the period of credit watch termination, FHA will not endorse any Mortgage originated and/or underwritten by the Mortgagee, unless prior to the date of termination a *Firm Commitment* has been issued by HUD relating to any such Mortgage or a Direct Endorsement (DE) underwriter approved the Mortgage.

Mortgages that closed or were approved before the termination became effective may be endorsed. Cases at earlier stages of processing cannot be submitted for insurance by the terminated Mortgagee. However, the cases may be transferred for completion of processing and underwriting to another Mortgagee authorized to underwrite FHA-insured Mortgages in that area.

(2) Public Notice

HUD will publish a list of Mortgagees who have had their authority terminated in the Federal Register and on HUD's website with a general explanation of the cause and effect of the termination.

(E) Reinstatement

(1) Waiting Period

A terminated Mortgagee may request to have its authority reinstated no earlier than six months after the effective date of the termination.

(2) Independent Review

The Mortgagee must obtain an independent review of the terminated area's operation and mortgage origination or underwriting, specifically including the FHA-insured Mortgages cited in the termination notice. The analysis must identify the underlying cause for the Mortgagee's high default and claim rate. The review must be conducted and issued by an independent Certified Public Accountant (CPA) qualified to perform audits under Government Auditing Standards as set forth by the General Accounting Office.

(3) Corrective Action Plan

The Mortgagee must submit a corrective action plan to address each of the issues identified in the CPA's report, along with evidence that the plan has been implemented. FHA reserves the right to impose additional requirements for reinstatement.

(4) Application for Reinstatement

The application for reinstatement must be submitted through the Lender Electronic Assessment Portal (LEAP). The application must be accompanied by the CPA's report and the corrective action plan.

iv. Suspension or Termination of Title II Lender Insurance Authority

(A) Definition

The Lender Insurance (LI) Compare Ratio is the percentage of Mortgages underwritten by the Mortgagee that are in claim or default status compared with the percentage of Mortgages in claim or default status for all Mortgagees operating in the same state(s) over the preceding two-year period.

(B) Scope

FHA monitors Mortgagees participating in the LI program whose LI Compare Ratios exceed 150 percent.

(C) Cause

FHA may immediately terminate or temporarily suspend a Mortgagee's LI Authority for any cause set forth in 24 CFR § 203.4(d).

(D) Notice and Appeal

FHA will provide written notice to any Mortgagee whose LI Authority has been suspended or terminated. Mortgagees may appeal the suspension or termination by requesting an informal conference with the DAS for Single Family Housing or its designee.

(1) Informal Conference

The suspension or termination letter will provide the address to where the request for an informal conference may be sent, and the time frame for the informal conference. The informal conference must be requested in writing within 30 Days of the notice of suspension or termination.

(2) Determination

The DAS or the designee will issue a decision in writing after the informal conference to either affirm the suspension or termination, or reinstate the Mortgagee's LI Authority. This decision represents a final agency action pursuant to section 256(d) of the National Housing Act (12 U.S.C. § 1715z-21(d)) and is not subject to further appeal or judicial review.

(3) Waiver of Appeal

If a Mortgagee does not request an informal conference within 30 Days of receiving the suspension or termination letter, the Mortgagee has waived its right to appeal.

(E) Effective Date

The suspension or termination of the Mortgagee's LI Authority is effective immediately upon the receipt of the notice by the Mortgagee.

(F) Effect of Suspension or Termination

A Mortgagee must submit every case binder to HUD for a pre-endorsement review and endorsement consideration.

A Mortgagee's Direct Endorsement authority is not affected by the suspension or termination of its LI Authority. Mortgagees who have had their LI Authority suspended or terminated may continue to underwrite and close FHA Mortgages without prior review by HUD.

(G) Reinstatement

(1) Waiting Period

A Mortgagee whose LI Authority has been terminated is prohibited from applying for reinstatement of its LI Authority for six months from the date of termination.

(2) Claim and Default Rate

At the time of the application for reinstatement, the Mortgagee must have unconditional Direct Endorsement authority and a two-year claim and default rate that does not exceed 150 percent of the aggregate claim and default rate for the states in which it underwrote Mortgages.

(3) Application for Reinstatement

Applications for reinstatement of LI Authority must be submitted to FHA through LEAP. The application must include:

- a copy of the *Acknowledgment of Terms and Conditions for LI* page from FHAC signed by an authorized official registered with HUD;
- a corrective action plan identifying the changes in internal policies and procedures that address the issues that resulted in the termination of LI Authority; and
- documentation evidencing that the Mortgagee has implemented the corrective action plan.

v. Return to Conditional or Withdrawal of Unconditional DELRAP Authority

(A) Adverse Action

(1) Loss of Direct Endorsement Authority

Withdrawal of Title II Direct Endorsement Authority will result in automatic termination of DELRAP authority.

(2) Noncompliance with Condominium Project Approval Requirements

Failure to comply with Condominium Project Approval requirements may result in one of the following actions:

- The Mortgagee is returned to Conditional DELRAP Authority status.
- The Mortgagee's Unconditional DELRAP Authority is withdrawn.

(B) Notice

FHA will send written notice listing the violations that precipitated the action(s) to the Mortgagee.

(C) Appeal

The Mortgagee may submit an appeal of the decision to FHA within 30 Days of the date of the decision.

(D) Informal Conference

If the decision is sustained, the applicant may submit a second appeal to the Office of Single Family Program Development. The Director or designee will conduct an informal conference with the Mortgagee and its counsel, if any, no later than 60 Days from the date of the decision.

(E) Determination

FHA will issue a determination following the informal conference stating whether Unconditional DELRAP Authority is approved or denied. If Unconditional DELRAP Authority is denied, the determination will state the reasons for the denial.

(F) Reinstatement

(1) Waiting Period

A Mortgagee may request reinstatement of the Mortgagee's DELRAP authority no earlier than six months after the date of the termination notice.

(2) Application for Reinstatement

The application for reinstatement is submitted to the appropriate HOC using the DELRAP authority Application and Approval process. The Mortgagee must:

- meet the Eligibility Requirements for DELRAP authority;
- submit a corrective action plan; and
- provide evidence that the Mortgagee has implemented the corrective action plan and that the underlying causes for termination have been satisfactorily remedied.

vi. Withdrawal of Title I Manufactured Housing Direct Endorsement Authority

FHA may withdraw the Manufactured Housing DE authority of any Title I Lender that demonstrates a pattern or practice of failing to comply with FHA underwriting guidelines or program requirements.

(A) Scope

FHA may terminate a Title Lender's approval to participate in the Manufactured Housing DE Program in a particular jurisdiction or on a nationwide basis.

(B) Notice and Appeal

FHA will provide the Title I Lender with written notice of the proposed withdrawal that identifies the grounds for the action and advises the Title I Lender of its right to an informal conference.

(1) Informal Conference

FHA will expeditiously arrange for a conference where the Title I Lender may present information and argument in opposition to the proposed withdrawal. The Title I Lender may be represented by counsel.

(2) Determination

After consideration of the material presented, FHA will issue a decision in writing stating whether the proposed termination is rescinded, modified, or affirmed.

(3) Appeal and Final Agency Action

The Lender may appeal the decision to the Deputy Assistant Secretary (DAS) for Single Family Housing or his or her designee. A decision by the DAS for Single Family Housing or his or her designee constitutes final agency action.

(C) Effect of Termination

A Title I Lender whose authority has been terminated is prohibited from originating or underwriting FHA-insured Title I Loans within the area of the HUD field office(s) listed in the Notice. The Title I Lender's general FHA approval and supplemental authority remain unaffected.

(1) Case Status

(a) Definition

A Title I Loan is a Loan underwritten and approved by a DE underwriter.

(b) Standard

After a Title I Lender's withdrawal of Title I Manufactured Housing DE authority, FHA will not endorse any Title I Loan originated by the Title I Lender.

Title I Loans that closed or were approved before the termination became effective may be endorsed, except in the case of fraud or misrepresentation. Cases at earlier stages of processing cannot be submitted for insurance by the terminated Title I Lender. However, the cases may be transferred for completion of processing and underwriting to another Title I Lender authorized to underwrite FHA-insured Title I Loans in that area.

(2) Public Notice

HUD will publish a list of Title I Lenders who have had their authority terminated in the Federal Register and on HUD's website with a general explanation of the cause and effect of the termination.

(D) Reinstatement

(1) Waiting Period

A terminated Title I Lender may request to have its authority reinstated no earlier than six months after the effective date of the termination.

(2) Independent Review

The Title I Lender must obtain an independent review of the terminated area's operation and mortgage origination or underwriting, specifically including the Title I FHA-insured Loans cited in the termination notice. The analysis must identify the underlying cause for the Title I Lender's high default and claim rate. The review must be conducted and issued by an independent Certified Public Accountant (CPA) qualified to perform audits under Government Auditing Standards as set forth by the General Accounting Office.

(3) Corrective Action Plan

The Title I Lender must submit a corrective action plan to address each of the issues identified in the CPA's report, along with evidence that the plan has been implemented. FHA reserves the right to impose additional requirements for reinstatement.

(4) Application for Reinstatement

The application for reinstatement must be submitted through the Financial Operations Center. The application must be accompanied by the CPA's report and the corrective action plan.

The contact information for the FOC is:

U.S. Department of Housing and Urban Development
Financial Operations Center
52 Corporate Circle
Albany, New York 12203
1-800-669-5152, extension 2832
Title_One_Help@hud.gov

vii. Termination of Title I Lender Contract of Insurance

HUD may terminate a Title I Lender's authority to originate or underwrite Title I Loans for any Title I Lender that demonstrates a pattern or practice of failing to comply with Title I originating, underwriting or program guidelines.

(A) Notice and Appeal

FHA will provide the Title I Lender with written notice of the proposed termination of the Title I Lender's Contract of Insurance within five business days that identifies the grounds for the action and advises the Title I Lender of its right to an informal conference.

(1) Informal Conference

FHA will expeditiously arrange for a conference where the Title I Lender may present information and arguments in opposition to the proposed termination prior to the expiration of the five business day notice period. The Title I Lender may be represented by counsel.

(2) Determination

After consideration of the material presented, FHA will issue a decision in writing stating whether the proposed termination is rescinded, modified, or affirmed.

(B) Effect of Termination

The Title I Lender remains responsible for servicing or selling the Title I Loans that it holds and is authorized to file insurance claims on these Title I Loans, but it cannot otherwise exercise the rights of an FHA-approved Title I Lender.

(1) Newly Originated Loans

A Title I Lender cannot obtain insurance coverage for new Title I Loans originated under the terminated Contract of Insurance as of the effective date of termination.

(2) Previously Insured Loans

The insurance reserve on Title I Loans previously accepted for insurance is not adversely affected except for Title I Loans involving fraud or misrepresentation.

(3) Premiums and Obligations

The Title I Lender is not relieved of the liability to pay future insurance premiums or other obligations owed to HUD.

(4) Reserves

Insurance Reserves earned by the Title I Lender as of the date of termination, under the terminated contract, remain to its credit unless exhausted by filing of claims.

(C) Reinstatement of Contract of Insurance

(1) Waiting Period

A Title I Lender may apply to obtain a new Contract of Insurance no earlier than six months after the effective date of the termination.

(2) Corrective Action Plan

The Title I Lender must submit a corrective action plan to address each of the issues identified that resulted in termination, along with evidence that the plan has been implemented. FHA reserves the right to impose additional requirements for reinstatement.

(3) Application for Reinstatement

The application for reinstatement must be submitted through the FOC. The application must be accompanied by the corrective action plan.

b. Loan Level Actions and Sanctions (09/14/2015)

FHA has the authority to pursue loan level actions and sanctions reasonably related to a Mortgagee's underlying violations.

4. Mortgagee Review Board Actions and Sanctions

The MRB is authorized to impose civil money penalties and take administrative action against any FHA-approved Mortgagee that does not comply with HUD and FHA statutory, regulatory, and any Handbook requirements, the Real Estate Settlement Procedures Act (RESPA), or the nondiscrimination requirements of the ECOA, the Fair Housing Act, or Executive Order 11063 on Equal Opportunity in Housing.

a. Actions and Sanctions (09/14/2015)

The following actions and sanctions may be imposed by the MRB:

- a letter of reprimand;
- probation;
- suspension;
- withdrawal of FHA approval; and
- civil money penalties.

The MRB may also enter into settlement agreements with noncomplying Mortgagees.

The following are general descriptions of the types of actions and sanctions that may be taken by the MRB and are for informational purposes only. The specific requirements for and procedures applicable to these actions are set forth in sections 202(c) and 536 of the National Housing Act (12 U.S.C. §§ 1708(c) and 1735f-14), and Parts 25 and 30 of Title 24 of the Code of Federal Regulations (24 CFR Parts 25 and 30).

i. Letter of Reprimand

The MRB may issue a letter of reprimand to inform a Mortgagee of its violation of FHA requirements. A letter of reprimand is effective upon receipt of the letter by the Mortgagee.

(A) Case Status

A letter of reprimand has no impact on the Mortgagee's authority to originate, underwrite, or service FHA-insured Mortgages.

(B) Duration

There is no time duration associated with a letter of reprimand.

(C) Appeal

The Mortgagee has no right to appeal a letter of reprimand within HUD.

ii. Probation

The MRB may place a Mortgagee on probation for violation of FHA requirements. The MRB will specify the scope, terms, and conditions of the probation, which are designed to allow FHA to monitor the Mortgagee and assist FHA with bringing the Mortgagee into compliance with FHA regulations.

(A) Case Status

Unless specified in the terms of the probation, a Mortgagee on probation retains its origination, underwriting, and servicing authorities, as applicable.

(B) Duration

The MRB may place a Mortgagee on probation for a period of up to six months.

(C) Appeal

The Mortgagee has the right to appeal a probation action in accordance with the provisions of 24 CFR Parts 25–26.

iii. Suspension

Suspension is a temporary measure that is applied to a Mortgagee when there is adequate evidence that the interests of HUD or the public would not be served by continuing to allow the Mortgagee to participate in FHA programs, pending the completion of any investigation, other review, or legal or administrative proceedings the Mortgagee is involved in.

(A) Effective Date

If the MRB determines there is adequate evidence that immediate action is required to protect the financial interests of HUD or the public, the MRB is authorized to suspend a Mortgagee's FHA approval immediately upon issuance of the notice of suspension and without prior issuance of a Notice of Violation (NOV) as set forth in 24 CFR § 25.7(d).

Any other suspension is effective upon the Mortgagee's receipt of the notice of suspension as set forth in 24 CFR § 25.5(d).

(B) Case Status

During the period of suspension, HUD will not endorse any Mortgage originated by the suspended Mortgagee unless it was an Approved Mortgage prior to the date of suspension.

The Mortgagee must transfer all other applications in process to another FHA-approved Mortgagee for completion of processing, submission, and endorsement.

(C) Duration

Suspension is generally imposed for a period of six months to one year, but may be extended for an additional six months in accordance with the provisions of 24 CFR Part 25.

(D) Appeal

The Mortgagee has the right to appeal a suspension in accordance with the provisions of 24 CFR Parts 25–26.

iv. Withdrawal of FHA Approval

Only the MRB may withdraw a Mortgagee's FHA approval. Withdrawal of FHA approval applies to all offices of the Mortgagee.

(A) Effective Date

If the MRB determines there is adequate evidence that immediate action is required to protect the financial interests of HUD or the public, the MRB is authorized to withdraw a Mortgagee's FHA approval immediately; in this case, the withdrawal is effective upon the Mortgagee's receipt of the notice of withdrawal.

Any other withdrawal is effective upon either:

- the expiration of the 30-Day appeal period, if the Mortgagee does not request a hearing; or
- the receipt of the Administrative Law Judge's final decision, if the Mortgagee does request a hearing within the 30-Day appeal period.

(B) Case Status

HUD will not endorse any Mortgage originated by the withdrawn Mortgagee unless it was an Approved Mortgage prior to the date of withdrawal.

The withdrawn Mortgagee must transfer its servicing portfolio to another FHA-approved Mortgagee. See transfers of servicing and sales of Mortgages.

Withdrawn FHA approval means that the Mortgagee may not originate, underwrite, service, or purchase any FHA-insured Mortgages.

(C) Duration

The MRB's withdrawal of a Mortgagee's FHA approval will be for a reasonable, specified period of time, but not less than one year. The MRB may permanently withdraw a Mortgagee's FHA approval if it finds the Mortgagee's violations to be egregious or willful.

A withdrawn Mortgagee's approval is not reinstated at the end of the period of withdrawal. The Mortgagee may re-apply for FHA approval after the period of withdrawal has expired.

(D) Appeal

The Mortgagee has the right to appeal a withdrawal of its FHA approval by the MRB in accordance with the provisions of 24 CFR Parts 25–26.

v. Civil Money Penalties

The MRB may impose civil money penalties against any FHA-approved Mortgagee who knowingly and materially violates FHA requirements as set forth in 24 CFR § 30.35.

(A) Complaint

If the MRB elects to seek civil money penalties against a Mortgagee, HUD will file a complaint to initiate legal action. A civil money penalty may be imposed against a Mortgagee in addition to any other administrative action taken by the MRB.

(B) Maximum Civil Money Penalties

The MRB is authorized to impose a civil money penalty, in accordance with the provisions of 24 CFR Part 30, against a party that knowingly and materially violates FHA program regulations or requirements. A civil money penalty may be imposed with respect to each insured Mortgage or other separate occurrence of a violation up to the maximum permitted under Part 30.

(C) Mitigating and Aggravating Factors

In determining the amount of a civil money penalty, the MRB will consider the following factors:

- the gravity of the offense;
- the Mortgagee's history of prior offenses;
- the Mortgagee's ability to pay the penalty;
- the injury to the public;
- the benefits received by the violator;
- the extent of potential benefit to other persons;
- deterrence of future violations; and
- the degree of the violator's culpability.

vi. Settlement Agreements

The MRB is authorized to enter into settlement agreements with noncomplying Mortgagees at any time in order to resolve grounds for an administrative sanction or civil money penalty, as set forth in 12 U.S.C. § 1708(c)(3)(E) and 24 CFR § 25.5(a). Failure by the Mortgagee to comply with the terms of a settlement agreement may result in a suspension or withdrawal of the Mortgagee's FHA approval.

b. Procedures (11/18/2020)

The following is a brief summary of the procedures of the MRB under 24 CFR Parts 25, 26, and 30.

i. Notice of Violation

The MRB will send the Mortgagee an NOV detailing the Mortgagee's alleged violations.

(A) Mortgagee Response

The Mortgagee may provide the MRB with a written response within 30 Days of receiving the NOV. The MRB will consider the Mortgagee's response, as well as other relevant material, when deciding which administrative action to take, if any, and whether to seek civil money penalties against the Mortgagee.

If the Mortgagee fails to respond to the NOV within 30 Days, the MRB will make a final determination based upon the information available to it.

(B) Preservation of Documents

Upon receipt of the NOV, the Mortgagee is required to preserve and maintain all documents and data, including electronically stored data, within the Mortgagee's possession or control that may relate to the violations alleged in the NOV.

ii. Notice of Administrative Action

If the MRB decides to take administrative action against the Mortgagee, the MRB will issue a Notice of Administrative Action to the Mortgagee describing the nature and duration of the action and setting forth the basis for the action being taken.

iii. Appeal

(A) Request for Hearing

Mortgagees may appeal a probation, suspension or withdrawal action by the MRB by submitting a written request for a hearing within 30 Days of receipt of the Notice of Administrative Action. The Mortgagee's request for a hearing must specifically respond to the violations set forth in the Notice of Administrative Action.

(B) Hearing Process and Procedures

Hearings are conducted before an impartial Administrative Law Judge in accordance with the procedures set forth in 24 CFR Part 26, Subpart B.

(C) Waiver of Appeal

If a Mortgagee fails to request a hearing within the 30-Day period, the MRB action becomes final.

iv. Public Notice

(A) Federal Register

Pursuant to the National Housing Act (12 U.S.C. § 1708(c)(5)), HUD publishes a description of and the cause for each administrative action against an FHA-approved Mortgagee in the Federal Register. The Federal Register notices include details on all MRB actions, including letters of reprimand, probations, suspensions, withdrawals of FHA approval, settlement agreements, and civil money penalties.

(B) Agency Notifications

If the MRB suspends or withdraws the approval of a Mortgagee, FHA is required to notify certain state, federal, and other interested agencies that interact with the Mortgagee, including:

- Conference of State Bank Supervisors/NMLS
- CFPB
- Fannie Mae
- Federal Deposit Insurance Corporation (FDIC)
- Federal Reserve
- Freddie Mac
- Ginnie Mae
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency
- U.S. Department of Agriculture Rural Development Housing Authority
- U.S. Department of Veterans Affairs

5. Actions and Sanctions Against Individuals and Other Program Participants

HUD may also impose civil money penalties and take administrative action against individuals and other program participants for violations of FHA mortgage insurance program requirements.

a. Limited Denial of Participation (09/14/2015)

i. Definition

A Limited Denial of Participation (LDP) is an action that excludes a party from further participation in a specified HUD program area based on the participant's failure to comply with HUD program standards. LDPs are issued under the authority of 2 CFR § 2424.1100.

ii. Cause

An LDP may be issued against an individual or other program participant based upon adequate evidence of any of the causes listed in 2 CFR § 2424.1110.

iii. Effective Date

An LDP is effective immediately upon issuance of the notice by the authorizing official.

iv. Duration

The LDP sanction may be imposed for a period not to exceed 12 months.

v. Processing and Appeals

An individual or other program participant may appeal the LDP by requesting an informal conference with the authorizing official or a hearing before the Departmental Hearing Officer within 30 Days of receipt of the notice of LDP.

LDP processing and appeal procedures are set forth in 2 CFR §§ 2424.1100–2424.1165.

vi. Public Notice

A list of individuals and other program participants who have received LDPs is available publicly on the HUD website, as well as through FHAC.

b. Suspension (09/14/2015)

Violations of statutes or serious or repeated violations of FHA requirements may lead to the suspension of an individual or other FHA program participant.

i. Definition

Suspension is a government-wide action that temporarily renders an individual ineligible to participate in most federal government programs pending the completion of an investigation or legal proceedings.

ii. Cause

FHA may suspend an individual for the reasons listed in 2 CFR § 180.700, including:

- the existence of an indictment for, or other adequate evidence to suspect, an offense listed under 2 CFR § 180.800(a); or
- the existence of adequate evidence to suspect any other cause for debarment listed under 2 CFR § 180.800(b)–(d); and
- a determination made by the suspending official that immediate action is necessary to protect the public interest.

iii. Effective Date

A suspension is effective when the suspending official signs the decision to suspend.

iv. Duration

If legal or debarment proceedings are initiated at the time of, or during a suspension, the suspension may continue until the conclusion of those proceedings. If proceedings are not initiated, a suspension may not exceed 12 months. The suspending official may extend the 12-month limit for an additional six months under limited circumstances described in 2 CFR § 180.760. In no event may a suspension exceed 18 months without initiating legal or debarment proceedings.

v. Processing and Appeals

An individual may appeal a proposed suspension by providing the suspending official with information in opposition to the suspension within 30 Days of receipt of the notice of suspension. Information may be provided orally or in writing; important information provided orally must also be submitted in writing for the official record.

Suspension processing and appeal procedures are set forth in 2 CFR §§ 180.700–180.760.

c. Debarment (09/14/2015)

Violations of statutes or serious or repeated violations of FHA requirements may lead to the debarment of an individual or other FHA program participant.

i. Definition

Debarment is a final determination by an authorizing official that the individual has engaged in prohibited conduct and is not presently responsible. Debarment excludes an individual from participating in most federal government programs for a specified period of time.

ii. Cause

FHA may debar an individual for the reasons listed in 2 CFR § 180.800, including, but not limited to:

- criminal conviction or civil judgment for commission of fraud in connection with obtaining, attempting to obtain, or performing a public or private agreement or transaction;
- criminal conviction or civil judgment for commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, receiving stolen property, making false claims, or obstruction of justice;
- criminal conviction or civil judgment for violation of federal or state antitrust statutes;
- criminal conviction or civil judgment for the commission of any other offense indicating a lack of business integrity or business honesty that seriously and directly affects the individual's present responsibilities;

- violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program;
- knowingly doing business with an ineligible person;
- failure to pay a single substantial debt, or a number of outstanding debts, owed to any federal agency or instrumentality, provided the debt is uncontested, or, if contested, provided all legal and administrative remedies have been exhausted; or
- any other serious or compelling cause that affects the present responsibility of the individual.

iii. Effective Date

A debarment is not effective until the individual has received a notice of proposed debarment and has had an opportunity to contest the proposed debarment. After the debarring official issues a decision, the debarment is effective immediately.

iv. Duration

The period of debarment is based on the seriousness of the cause(s) upon which the debarment is based. Generally, the period of debarment should not exceed three years. However, if circumstances warrant, the debarring official may impose a longer period of debarment.

v. Processing and Appeals

An individual may appeal a proposed debarment by providing the debarring official with information in opposition to the debarment within 30 Days of receipt of the notice of debarment. Information may be provided orally or in writing; important information provided orally must also be submitted in writing for the official record.

Debarment processing and appeal procedures are set forth in 2 CFR §§ 180.800–180.885.

d. Civil Money Penalties (09/14/2015)

The Assistant Secretary for Housing - Federal Housing Commissioner or its designee is authorized to pursue civil money penalties against any principal, officer, or employee of a Mortgagee, or other participants in a Mortgage insured by FHA, including, but not limited to:

- sellers
- Borrowers
- Closing Agents
- title companies
- real estate agents
- mortgage brokers
- Appraisers
- sponsored TPOs
- dealers
- consultants

- contractors
- subcontractors
- inspectors

The Assistant Secretary for Housing - Federal Housing Commissioner or its designee is authorized to pursue civil money penalties against program participants who knowingly and materially violate FHA requirements as set forth in 24 CFR § 30.36.

e. Specific Program Participants (12/23/2025)

The following are actions and sanctions available for use in connection with the specific program participant listed.

i. Appraisers

(A) Notice of Deficiency

(1) Standard

A Notice of Deficiency (NOD) refers to a formal notification from FHA to an Appraiser when a review identifies an error or lack of compliance. An NOD is not a sanction and is not considered severe enough to require remedial education or removal.

An NOD is noted on the Appraiser's record and multiple NODs may result in further action by FHA.

(2) Cause

An Appraiser may receive an NOD if an FHA review has determined gaps in due diligence and professionalism or errors or noncompliance.

(3) Notice

FHA will provide the Appraiser with written notice outlining deficiencies found in a specific appraisal.

(4) Appeal

An NOD is not a sanction and no appeal is available.

(B) Remedial Education

(1) Standard

FHA may require an Appraiser to take remedial education on appraisal-related topics for failure to comply with the requirements outlined in this Handbook 4000.1.

The Appraiser must complete remedial education within 60 Days of the date of notification and provide proof of successful completion. Failure to comply with a remedial education action may result in escalation of the FHA Appraiser Roster action to an administrative removal sanction with ineligible status due to discipline until the conditions of the original action have been satisfied.

(2) Cause

Cause for remedial education includes, but is not limited to, identification of more serious deficiencies in the appraisal report that indicate lack of competence, including incomplete data collection or support for analysis and conclusions.

(3) Notice

FHA will provide the Appraiser with written notice of the required remedial education that identifies the ground for the requirement.

(4) Appeal

Remedial education is not a sanction and no appeal is available.

(C) Removal

(1) Definition

Removal refers to an Appraiser being placed in ineligible status on the FHA Appraiser Roster.

(2) Standard

The Appraiser will be ineligible to conduct appraisals for all FHA purposes from the date the sanction was imposed until the Appraiser satisfies the conditions of the removal and is reinstated to good standing on the FHA Appraiser Roster.

FHA may remove an Appraiser's eligibility from the FHA Appraiser Roster for failure to comply with the requirements outlined in this Handbook 4000.1. The Appraiser may be required to take remedial education in addition to the removal.

The expiration of a state-issued credential may affect eligibility within the state of the credential and FHA will suspend the Appraiser's state credential eligibility in FHAC. However, the suspension for an expired credential is not a removal sanction; the Appraiser will be eligible to conduct appraisals in any other state in which the Appraiser has a valid credential on the FHA Appraiser Roster. See Renewal and Maintenance and FHA Connection (FHAC) for applicable eligibility guidance.

FHA will notify the state licensing or certification agency in writing when an Appraiser has received a final notice of removal from the FHA Appraiser Roster. HUD will refer Appraisers to these boards if HUD considers the actions to be of such magnitude or frequency as to warrant such referral.

(3) Causes

Causes for removal include, but are not limited to, any of the following:

- significant deficiencies in appraisals, including noncompliance with Civil Rights requirements regarding appraisals;
- losing standing as a state-certified Appraiser due to disciplinary action in any state in which the Appraiser is certified;
- prosecution for committing, attempting to commit, or conspiring to commit fraud, misrepresentation, or any other offense that may reflect on the Appraiser's character or integrity;
- failure to perform appraisal functions in accordance with instructions and standards issued by HUD;
- failure to comply with any agreement made between the Appraiser and HUD or with any certification made by the Appraiser;
- issuance of a final debarment, suspension, or limited denial of participation;
- failure to maintain eligibility requirements for placement on the Appraiser Roster as set forth under this subpart or any other instructions or standards issued by HUD; or
- failure to comply with HUD-imposed education requirements.

(4) Notice

An Appraiser that is debarred, suspended, subject to a limited denial of participation, has lost standing as a state-certified Appraiser due to disciplinary action, or has failed to comply with HUD-imposed education requirements will be administratively removed from FHA Appraiser Roster eligibility and notified of the removal.

An appraiser that has lost standing as a state-certified Appraiser due to expiration of the state-issued certification will be suspended from FHA Appraiser Roster eligibility in the jurisdiction in which the certification elapsed and notified of the suspension.

In all other cases, the Appraiser will be given written notice of the proposed removal, and the notice will include the reasons for the proposed removal and the duration of the proposed removal.

(5) Appeal

The Appraiser will have 20 Days from the date of the notice of proposed removal to submit a written response appealing the proposed removal and to request a conference. A request for a conference must be in writing and must be submitted along with a written response.

Within 30 Days of FHA's receipt of the Appraiser's written response, or if the Appraiser has requested a conference, within 30 Days after the completion of the conference, an FHA official, designated by the Secretary, will review the appeal and send a final decision either affirming, modifying, or canceling the proposed removal from the Appraiser Roster. FHA may extend this time upon giving notice. The FHA official designated by the Secretary to review the appeal will not be someone involved in FHA's initial removal decision, nor will it be someone who reports to a person involved in that initial decision.

If the Appraiser does not submit a written response, the removal will be effective 20 Days after the date of FHA's initial removal notice. If the Appraiser submits a written response, and the removal decision is affirmed or modified, the removal or modification will be effective on the date of FHA's notice affirming or modifying the initial removal decision.

(6) Duration

Removal of eligibility from the FHA Appraiser Roster may be for a period of up to 12 months.

When a removal is the result of expiration or a disciplinary action by the licensing state, removal of eligibility from the FHA Appraiser Roster will remain in effect until the appraiser's credentials are reinstated by the issuing state.

ii. 203(k) Consultants

Removal

(A) Standard

FHA may remove a Consultant from the Roster for any cause that HUD determines to be detrimental to HUD or its programs.

(B) Cause

Cause for removal includes:

- poor performance on a HUD QC review;
- failure to comply with applicable regulations or other written instructions or standards issued by HUD;
- failure to comply with applicable civil rights requirements;

- misrepresentation or fraudulent statements;
- failure to retain standing as a state-licensed architect or state-licensed engineer (unless the Consultant can demonstrate the required three years of experience as a home inspector or remodeling contractor);
- failure to retain standing as a state-licensed home inspector, if the Consultant is located in a state that requires such licensing; or
- failure to respond within a reasonable time to HUD inquiries or requests for documentation.

A 203(k) Consultant who is debarred or suspended, subject to a Limited Denial of Participation (LDP), or otherwise ineligible to participate in an FHA transaction will be removed from the Roster.

(C) Notice

HUD will give the Consultant written notice of the proposed removal with reasons for the proposed removal and instructions for appeal or reinstatement.

iii. Nonprofits and Governmental Entities

(A) HUD Homes - Excess Profits

FHA limits the costs that are eligible to be included in the NDC calculation and prohibits the nonprofit organization or Governmental Entity from reselling the repaired or improved properties at prices in excess of 110 percent of the allowed NDCs.

If the Governmental Entity's or HUD-approved Nonprofit's resale price of the HUD Home exceeds 110 percent of the NDCs, or if non-allowable items that are included in the NDCs result in an excessive sales price, the HUD-approved Governmental Entity or Nonprofit must use the excess profit to pay down the existing Mortgage associated with that particular resale.

(B) Removal from Roster

(1) Standard

FHA may remove a nonprofit from the list of HUD-approved nonprofit agencies for any cause that HUD determines to be detrimental to FHA or any of its programs.

Nonprofit agencies removed from the approved list must re-apply to HUD in accordance with instructions contained in Nonprofit and Governmental Entities Application and Approval Process.

(2) Cause

Cause for removal includes, but is not limited to, any of the following:

- failure to comply with applicable Single Family regulations in this Handbook 4000.1 or other written instructions or standards issued by HUD;
- failure to comply with applicable civil rights requirements;
- holding a significant number of FHA-insured Mortgages that are in Default, foreclosure, or claim status (in determining the number considered "significant," HUD may compare the number of insured Mortgages held by the nonprofit organization against the similar holdings of other nonprofit organizations);
- debarment, suspension, being subject to a Limited Denial of Participation (LDP) or otherwise sanctioned by HUD;
- failure to further all objectives described in the Affordable Housing Program Plan (AHPP);
- misrepresentation or fraudulent statements; or
- failure to respond to FHA inquiries, including recertification requests or other requests for further documentation, within 30 Days.

(3) Notice and Appeal

A nonprofit organization that is debarred or suspended, or subject to an LDP, will be automatically removed from the HUD Nonprofit Roster.

In all other cases, the following procedures for removal apply:

- HUD will give the nonprofit organization written notice of the proposed removal. The notice will include the reasons for the proposed removal and the duration of the proposed removal.
- The nonprofit organization will have 20 Days from the date of the notice (or longer, if provided in the notice) to submit a written response appealing the proposed removal and request a conference. A request for a conference must be in writing and must be submitted along with the written response.
- A HUD official will review the appeal and provide an informal conference if requested. The HUD official will send a response affirming, modifying, or canceling the removal. The HUD official will not have been involved in HUD's initial removal decision. HUD will respond with a decision within 30 Days of receiving the response, or, if the nonprofit organization has requested a conference, within 30 Days after the completion of the conference. HUD may extend the 30-Day period by providing written notice to the nonprofit organization.
- If the nonprofit organization does not submit a timely written response, the removal will be effective 20 Days after the date of HUD's initial removal notice (or after a longer period provided in the notice). If a written

response is submitted, and the initial removal decision is affirmed or modified, the removal will be effective on the date of HUD's notice affirming or modifying the initial removal decision.

iv. Real Estate Brokers

(A) Removal for Good Cause

HUD may rescind real estate brokers' HUD registration and prohibit those brokers from participating in the sale of HUD REO Properties for good cause. Good cause includes, but is not limited to:

- conviction under 18 U.S.C. 371 or 1010 of a broker or by an agent supervised by that broker and acting within the scope of their duties; and
- any of the following actions by a broker or an agent supervised by that broker and acting within the scope of their duties:
  - falsifying mortgage documents or aiding or abetting others in the use of false or misleading information including, but not limited to, forged or fraudulent gift letters and owner-occupant certifications;
  - acting in concert with an Appraiser to arrive at an artificial appraised value;
  - engaging in fraudulent activities that have led to Default and payment of an insurance claim;
  - failing to comply with earnest money collection, management, and disbursement procedures;
  - failing to maintain a current state license;
  - violating the Real Estate Settlement Procedures Act (RESPA);
  - failing to comply with civil rights requirements, including the Fair Housing Act and ECOA, in any real estate related transaction;
  - involvement in, or knowledge of, any fraudulent activity by any person involved in the HUD REO sales transaction; and
  - any other actions or omissions that evidence a lack of business integrity or noncompliance with the laws, regulations, and rules applicable to housing, lending, or real estate sales.

Good cause, as identified above, includes apparent criminal activity. If and when apparent criminal activity is identified, it must be immediately reported to HUD's Office of Inspector General (OIG).

(B) Notice to Real Estate Broker

Once HUD makes an initial Finding that there is good cause to remove a real estate broker, HUD will provide the real estate broker with written notice of the proposed suspension or termination of the NAID and deactivation of the broker's access to HUD's systems used for HUD REO sales. The notice will:

- state the reasons that HUD is taking the action;
- identify the violations or deficiencies involved;

- provide a citation to the relevant regulation, statute, or policy; and
- state the effective date and duration of the suspension or termination.

(C) Effective Date of Removal

The real estate broker's suspension, termination, and/or deactivation is effective 30 Days from the date of HUD's written notice, unless the broker submits a written response or requests a conference.

(D) Real Estate Broker Response and Conference

Within 20 Days after the date of the notice or within such time provided in the notice, the real estate broker may submit a written response to HUD opposing the proposed removal and may request a conference.

The real estate broker must submit a request for a conference in writing and must submit this request with the written response.

HUD will delay suspension, termination, and/or deactivation until it makes a final determination on the real estate broker's response and conference. HUD will notify the real estate broker in writing of its decision; the written decision by HUD shall constitute final agency action.

(E) Effect of Removal Proceedings on Bids

HUD will honor all bids submitted and commissions earned by the real estate broker before removal, unless HUD determines that the bids or commissions were made under fraudulent circumstances.

v. Closing Agents

HUD reserves the right to sanction or remove any Closing Agent that does not abide by HUD's closing instructions and requirements.

vi. Additional Other Participants

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Other Program Participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

APPENDIX 1.0 – MORTGAGE INSURANCE PREMIUMS (03/20/2023)

Upfront Mortgage Insurance Premium (UFMIP)
All Mortgages: 175 Basis Points (bps) (1.75%) of the Base Loan Amount.
Exceptions: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247) • Indian Lands (Section 248)
Indian Lands (Section 248) do not require a UFMIP.

Annual Mortgage Insurance Premium (MIP)			
Applies to all Mortgages except: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247)			
Hawaiian Home Lands (Section 247) do not require Annual MIP.			
Mortgage Term of More Than 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $726,200	≤ 90.00%	50	11 years
	> 90.00% but ≤ 95.00%	50	Mortgage term
	> 95.00%	55	Mortgage term
Greater than $726,200	≤ 90.00%	70	11 years
	> 90.00% but ≤ 95.00%	70	Mortgage term
	> 95.00%	75	Mortgage term
Mortgage Term of Less than or Equal to 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $726,200	≤ 90.00%	15	11 years
	> 90.00%	40	Mortgage term
Greater than $726,200	≤ 78.00%	15	11 years
	> 78.00% but ≤ 90.00%	40	11 years
	> 90.00%	65	Mortgage term

Streamline Refinance, Simple Refinance:

For refinance of previous Mortgage endorsed on or before May 31, 2009 UFMIP: 1 (bps) (.01%) All Mortgages			
All Mortgage Terms			
Base Loan Amount	**LTV**	**Annual MIP (bps)**	**Duration**
All	≤ 90.00%	55	11 years
	> 90.00%	55	Mortgage term
For Mortgages where FHA does not require an appraisal, the value from the previous Mortgage is used to calculate the LTV.			

Hawaiian Home Lands Section 247

Hawaiian Home Lands Upfront MIP (UFMIP)				
	Loan Term in Years			
	≤18	>18 and ≤22	>22 and ≤25	>25
MIP Financed	2.400%	3.000%	3.600%	3.800%
MIP not Financed	2.344%	2.913%	3.475%	3.661%
Annual MIP is not assessed on Section 247 Mortgages.				

APPENDIX 2.0 - ANALYZING IRS FORMS (04/10/2025)

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	An amount shown under this heading may indicate that the individual: • is a salaried employee of a corporation; or • has other sources of income. This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the Borrower's gross income.
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income. Depreciation, depletion, business use of home, amortization, and casualty losses may be added back to the gross income.
Business Use of Home	Mortgage interest, Mortgage Insurance Premiums (MIP), real estate taxes, and property insurance deducted for business use of a house may be added back to the gross income.
Rents, Royalties, Partnerships (from Schedule E)	Any net income from rental properties or royalties may be used as Effective Income, after adding back any depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E. Any net loss must be subtracted from Effective Income.
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time, and should not be considered when determining Effective Income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' Tax Returns are required to evaluate an earnings trend. If the trend: • results in a gain, it may be added as Effective Income; or • consistently shows a loss, it must be deducted from the total income.
Interest and Dividend Income (from Schedule B)	This taxable/tax-exempt income may be added back to the adjusted gross income only if it: • has been received for the past two years; and • is expected to continue.

IRS Form 1040 Heading	Description
	If the interest-bearing asset will be liquidated as a source of the cash investment, the Mortgagee must appropriately adjust the amount.
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The nontaxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the Mortgage.
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are: • IRA and Keogh retirement deductions; or • penalties on early withdrawal of savings health insurance deductions, and Alimony payments.

Analyzing IRS Form 1120, *U.S. Corporation Income Tax Return*

A Corporation refers to a state-chartered business owned by its stockholders.

To determine the Borrower's income, the adjusted business income must be multiplied by the Borrower's percentage of ownership in the business.

Corporate compensation to the officers, in proportion to the percentage of ownership, is shown on the corporate Tax Return (IRS Form 1120), and individual Tax Returns. If the Borrower's percentage of ownership does not appear on the Tax Returns, the Mortgagee must obtain the information from the corporations' accountant, along with evidence that the Borrower has the right to any compensation.

The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description of Adjustment
Depreciation, Depletion, Amortization, and Casualty Losses	Add the corporation's depreciation, depletion, amortization, and non-recurring casualty losses back to the after-tax income.
Fiscal Year vs. Calendar Year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual Tax Return.
Cash Withdrawals	The Borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

Analyzing IRS Form 1120-S, *U.S. Income Tax Return for an S Corporation*

An "S" Corporation refers to a small start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.

Income for owners of "S" corporations comes from IRS Form W-2 wages, and is taxed at the individual rate. The IRS Form 1120-S Compensation of officers line item is transferred to the Borrower's individual IRS Form 1040, *U.S. Individual Income Tax Return*.

Depreciation, depletion, amortization, and non-recurring casualty losses may be added back to income in proportion to the Borrower's percentage of ownership in the corporation.

The Borrower's income must be reduced proportionately by the total obligations payable by the corporation in less than one year.

Analyzing Schedule K-1 (IRS Form 1065), *U.S. Return of Partnership Income*

A Partnership refers to when two or more individuals form a business, and share in profits, losses, and responsibility for running the company. Each partner pays taxes on their proportionate share of the partnership's net income.

Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040.

Depreciation, depletion, amortization, and non-recurring casualty losses may be added back to the income in proportion to the Borrower's share of the income.

The Borrower's income must be reduced proportionately by the total obligation payable by the partnership in less than one year.

APPENDIX 3.0 – POST-ENDORSEMENT FEES AND CHARGES BY LOCATION (APPLIES TO SERVICING ONLY) (11/10/2026)

Type of Service	AL	AK	AZ	AR	CA	CO	CT	DE	DC	FL
Substitution of Hazard Insurance Policy	$10	$15	$10	$10	$10	$10.50	$10	$10	$10	$15
Returned Check*	$10	$15	$15	$25	$15	$15	$25	$15	$15	$20
Modification of performing Mortgage	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50
Modification of the mortgaged Property	$100	$125	$100	$110	$100	$100	$100	$110	$110	$100
Incorporating a Borrower's name change into the Servicer's loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Closing Disclosure**	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Amortization Schedule**	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15
Replacement Coupon Books	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Verification of Mortgage	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20
Copy of Year-End Statement	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Transmittal of Payoff Statement via Facsimile	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Additional Payoff Statements***	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10

* Unless prohibited by the Borrower's bank, the Mortgagee must present the check for payment twice before it can be deemed "uncollectible" when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Type of Service	GA	HI	ID	IL	IN	IA	KS	KY	LA	ME
Substitution of Hazard Insurance Policy	$10	$10	$15	$10	$10	$10	$10	$10	$10	$10
Returned Check*	$15	$15	$20	$20	$25	$15	$15	$15	$25	$25
Modification of performing Mortgage	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50
Modification of the mortgaged Property	$125	$100	$125	$100	$100	$100	$100	$100	$110	$100
Incorporating a Borrower's name change into the Servicer's loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Closing Disclosure**	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Amortization Schedule**	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15
Replacement Coupon Books	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Verification of Mortgage	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20
Copy of Year-End Statement	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Transmittal of Payoff Statement via Facsimile	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Additional Payoff Statements***	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10

* Unless prohibited by the Borrower's bank, the Mortgagee must present the check for payment twice before it can be deemed "uncollectible" when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Type of Service	MD	MA	MI	MN	MS	MO	MT	NE	NV	NH
Substitution of Hazard Insurance Policy	$10	$10	$10	$10	$7.50	$10	$10.50	$10	$10	$10
Returned Check*	$15	$25	$20	$20	$15	$15	$15	$15	$15	$25
Modification of performing Mortgage	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50
Modification of the mortgaged Property	$110	$100	$150	$100	$100	$100	$100	$100	$100	$100
Incorporating a Borrower's name change into the Servicer's loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Closing Disclosure**	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Amortization Schedule**	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15
Replacement Coupon Books	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Verification of Mortgage	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20
Copy of Year-End Statement	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Transmittal of Payoff Statement via Facsimile	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Additional Payoff Statements***	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10

* Unless prohibited by the Borrower's bank, the Mortgagee must present the check for payment twice before it can be deemed "uncollectible" when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Type of Service	NJ	NM	NY	NC	ND	OH	OK	OR	PA	PR
Substitution of Hazard Insurance Policy	$10	$10	$10	$7.50	$10.50	$10	$10	$15	$10	$10
Returned Check*	$20	$15	$20	$15	$15	$20	$25	$15	$15	$15
Modification of performing Mortgage	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50
Modification of the mortgaged Property	$100	$110	$100	$150	$100	$100	$110	$125	$110	$100
Incorporating a Borrower's name change into the Servicer's loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Closing Disclosure**	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Amortization Schedule**	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15
Replacement Coupon Books	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Verification of Mortgage	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20
Copy of Year-End Statement	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Transmittal of Payoff Statement via Facsimile	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Additional Payoff Statements***	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10

* Unless prohibited by the Borrower's bank, the Mortgagee must present the check for payment twice before it can be deemed "uncollectible" when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Type of Service	RI	SC	SD	TN	TX	UT	VT	VA	VI	WA
Substitution of Hazard Insurance Policy	$10	$15	$10.50	$7.50	$10	$10.50	$10	$10	$10	$15
Returned Check*	$25	$20	$15	$20	$25	$15	$25	$15	$10	$15
Modification of performing Mortgage	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50
Modification of the mortgaged Property	$100	$100	$100	$150	$110	$100	$100	$110	$100	$125
Incorporating a Borrower's name change into the Servicer's loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Closing Disclosure**	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10
Copy of Amortization Schedule**	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15
Replacement Coupon Books	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Verification of Mortgage	$20	$20	$20	$20	$20	$20	$20	$20	$20	$20
Copy of Year-End Statement	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Transmittal of Payoff Statement via Facsimile	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Additional Payoff Statements***	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10

* Unless prohibited by the Borrower's bank, the Mortgagee must present the check for payment twice before it can be deemed "uncollectible" when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Type of Service	WV	WI	WY	Pacific Islands
Substitution of Hazard Insurance Policy	$10	$10	$10.50	$10
Returned Check*	$15	$20	$15	$15
Modification of performing Mortgage	$50	$50	$50	$50
Modification of the mortgaged Property	$110	$100	$100	$100
Incorporating a Borrower's name change into the Servicer's loan system	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	$10	$10	$10	$10
Copy of Closing Disclosure**	$10	$10	$10	$10
Copy of Amortization Schedule**	$15	$15	$15	$15
Replacement Coupon Books	$5	$5	$5	$5
Verification of Mortgage	$20	$20	$20	$20
Copy of Year-End Statement	$5	$5	$5	$5
Transmittal of Payoff Statement via Facsimile	$5	$5	$5	$5
Additional Payoff Statements***	$10	$10	$10	$10

* Unless prohibited by the Borrower's bank, the Mortgagee must present the check for payment twice before it can be deemed "uncollectible" when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

APPENDIX 4.0 – FHA HOME RETENTION OPTIONS CALCULATIONS (APPLIES TO SERVICING ONLY) (12/30/2025)

UPB refers to the unpaid principal balance on the Mortgage.

SIP refers to HUD's Single Family Mortgage Asset Recovery Technology (SMART) Integrated Portal.

Part A: Arrearages

Step 1 – Calculate the Items to Include in Arrearages	Result
a. Only applicable for Repayment Plans, Partial Claims, and Payment Supplements, calculate the principal amounts that are past due.	$
b. Calculate accrued interest amounts that are past due.	$
c. Calculate past due escrow amounts and/or Mortgagee advances for escrow items.	$
d. Calculate projected escrow shortage amount after completion of an escrow analysis, except for Repayment Plans.	$
e. Calculate allowable legal fees and foreclosure and bankruptcy costs for work performed for the current Default episode as of the date of the foreclosure cancellation and not higher than the fees and costs HUD has identified as customary and reasonable.	$
Step 2 – Calculate Total Arrearages for Repayment Plans, Partial Claims, and Payment Supplements	**Result**
Add amounts in Steps 1.a-e.	$
Step 3 – Calculate Total Arrearages for Loan Modifications or Combination Loan Modifications and Partial Claims	**Result**
Add amounts in Steps 1.b-e.	$

Part B: Partial Claim Availability

For the purposes of calculating available Partial Claim funds, any Payment Supplement is treated the same as a Partial Claim, and initial or previous Partial Claims include Payment Supplements.

Step 1 –	Result
Verify if the Borrower has previously received a Partial Claim in SIP. Enter the UPB at the time of the initial Partial Claim or, if the Borrower did not receive any previous Partial Claim(s), enter the UPB as of the date of Default for this episode.	$
Step 2 –	**Result**
Multiply the result in Step 1 by 30%.	$
Step 3 –	**Result**
Did the Borrower previously receive a Partial Claim as reported in SIP?	If yes, proceed to Step 4.

	If no, the result in Step 2 is the maximum Partial Claim amount available for the current Default episode.
Step 4 –	**Result**
Subtract the total amount of all Partial Claim(s) paid on the Mortgage, as reported in SIP, from the 30% statutory maximum funds available established in Step 2.	$ This is the maximum Partial Claim amount available for the current Default episode.

Part C: Borrower Attests They Can Resume Mortgage Payments

Step 1 – Determine the Arrearages, Partial Claim Availability, and Monthly Principal and Interest (P&I) Payment for a Standalone Partial Claim	**Result**
a. Enter the Arrearages (Part A, Step 2).	$ Proceed to Step 1.b.
b. Enter the Partial Claim Availability (Part B).	$ Proceed to Step 1.c.
c. Enter the monthly P&I payment under a Standalone Partial Claim.	$ Proceed to Step 2.
Step 2 – Calculate Monthly P&I Payment under Standalone Loan Modification	**Result**
a. Add Arrearages (calculated in Part A, Step 3) to the UPB to determine the total amount to be resolved.	$ Proceed to Step 2.b.
b. Re-amortize the total amount to be resolved (Step 2.a) for a 30-year term at the Market Rate to determine the modified monthly P&I payment.	$ Proceed to Step 3.
Step 3 – Compare Monthly P&I for Standalone Partial Claim and Standalone Loan Modification	**Result**
Is the monthly P&I payment for a Standalone Loan Modification at least $1 less than the P&I payment for a Standalone Partial Claim?	If yes, offer the Borrower a Standalone Loan Modification (calculated in Step 2). If no, proceed to Step 4.
Step 4 – Determine if the Borrower has Sufficient Partial Claim Funds for a Standalone Partial Claim	**Result**
Are the Arrearages (Step 1.a) less than or equal to the Partial Claim Availability (calculated in Part B)?	If yes, offer the Borrower a Standalone Partial Claim. If no, evaluate the Borrower for a Permanent Home Retention Option with payment reduction starting with the Standalone Loan Modification in Part D.

Part D: Calculate Standalone Loan Modification

Step 1 – Calculate 25% P&I Reduction	Result
Multiply the current P&I by 0.75 to determine the target payment with a 25% P&I reduction.	$ Proceed to Step 2.
Step 2 – Determine Total Amount to be Resolved	**Result**
Add Arrearages (calculated in Part A, Step 3) to the UPB to determine the total amount to be resolved.	$ Proceed to Step 3.
Step 3 – Determine if a 30-Year Modification can Achieve a 25% P&I Reduction	**Result**
a. Re-amortize the total amount to be resolved (Step 2) for a 30-year term at the Market Rate to determine the modified monthly P&I payment.	$ Proceed to Step 3.b.
b. Determine if the result in Step 3.a is equal to or less than the target payment calculated in Step 1.	If yes, offer the Borrower a Standalone Loan Modification for a term of 30 years. If no, proceed to Step 4.
Step 4 – Determine if a 40-Year Modification can Achieve a 25% P&I Reduction	**Result**
a. Re-amortize the total amount to be resolved (Step 2) for a 40-year term at the Market Rate to determine the modified monthly P&I payment.	$ Proceed to Step 4.b.
b. Determine if the result in Step 4.a is equal to or less than the target payment calculated in Step 1.	If yes, offer the Borrower a Standalone Loan Modification for a term of 40 years. If no, proceed to Step 5.
Step 5 – Consider if the Borrower is Eligible for Other Permanent Home Retention Options	**Result**
Does the Borrower have a minimum of $1,000 in Partial Claim Availability (calculated in Part B)?	If yes, review the Borrower for a Combination Loan Modification and Partial Claim. If no, offer the Borrower a Standalone Loan Modification that is modified to a term of 40 years, even if the payment increases.

Part E: Combination Loan Modification and Partial Claim Calculations

Step 1 – Calculate 25% P&I Reduction	Result
Enter the target payment with a 25% P&I reduction (calculated in Part D, Step 1).	$ Proceed to Step 2.

Step 2 – Determine Total Amount to be Resolved	Result
Add Arrearages (calculated in Part A, Step 3) to the UPB to determine the total amount to be resolved.	$ Proceed to Step 3.
Step 3 - Determine if a 30-Year Combination Loan Modification and Partial Claim can Achieve a 25% P&I Reduction	**Result**
a. Calculate the loan amount needed to achieve the target payment (Step 1) on a 30-year term at the Market Rate.	$
b. Subtract the target loan amount (Step 3.a) from the total amount to be resolved (Step 2) to determine the amount of Partial Claim funds required.	$
c. Is the Partial Claim Availability (calculated in Part B) greater than or equal to the amount of Partial Claim funds required (Step 3.b)?	If yes, offer the Borrower a 30-Year Combination Loan Modification and Partial Claim. If no, proceed to Step 4.
Step 4 - Determine if a 40-Year Combination Modification and Partial Claim can Achieve a 25% P&I Reduction	**Result**
a. Calculate the loan amount needed to achieve the target payment (Step 1) on a 40-year term at the Market Rate.	$
b. Subtract the target loan amount (Step 4.a) from the total amount to be resolved (Step 2) to determine the amount of Partial Claim funds required.	$
c. Is the Partial Claim Availability (calculated in Part B) greater than or equal to the amount of Partial Claim funds required (Step 4.b)?	If yes, offer the Borrower a 40-Year Combination Loan Modification and Partial Claim. If no, proceed to Step 5.
Step 5 - Determine if a 40-Year Combination Loan Modification and Partial Claim can Achieve a Minimum 15% P&I Reduction	**Result**
a. Multiply the current P&I by 0.85 to determine the target payment with a 15% P&I reduction.	$
b. Subtract the Partial Claim Availability (calculated in Part B) from the total amount to be resolved (calculated in Step 2) to determine the maximum modified amount.	$
c. Calculate the P&I for a modified Mortgage amount (calculated in Step 5.b) with a 40-year term at the Market Rate.	$
d. Is the P&I of the modified Mortgage (calculated in Step 5.c) less than or equal to the amount calculated in Step 5.a?	If yes, offer the Borrower a 40-Year Combination Loan Modification and Partial Claim. If no, proceed to Payment Supplement.

Step 6 - Re-Review Borrowers Not Eligible for Payment Supplement	Result
a. Is the Borrower ineligible for a Payment Supplement or does the Borrower not have sufficient Partial Claim Availability to receive a Payment Supplement for the Minimum Monthly Principal Reduction (Minimum MoPR), and the Combination Loan Modification and Partial Claim for 40 years will provide a payment reduction to the P&I?	If yes, offer the Borrower a Combination Loan Modification and Partial Claim for 40 years. If no, proceed to Step 6.b.
b. Does the Borrower have sufficient Partial Claim Availability to receive a Standalone Partial Claim (calculated in Part C)?	If yes, proceed to Standalone Partial Claim. If no, offer the Borrower a Combination Loan Modification and Partial Claim for 40 years, even if the payment increases.

Part F: Payment Supplement Calculations

Step 1 – Determine Partial Claim Availability	Result
Enter the Partial Claim Availability (calculated in Part B).	$ If the result is greater than 0, proceed to Step 2. If no Partial Claim funds are available, the Borrower is not eligible for the Payment Supplement.
Step 2 – Calculate Amount Required to Reinstate the Mortgage Using a Payment Supplement	**Result**
Enter Arrearages (calculated in Part A, Step 2) to bring Mortgage current.	$ Proceed to Step 3.
Step 3 – Calculate Partial Claim Funds Available for MoPR	**Result**
a. Subtract the amount in Step 2 from the amount in Step 1 to determine the amount of Partial Claim funds available for the MoPR.	$
b. Is the amount in Step 3.a greater than 0?	If yes, proceed to Step 4. If no, the Borrower is not eligible for the Payment Supplement.
Step 4 – Calculate Maximum MoPR	**Result**
Step 4.a – Calculate 25% P&I Reduction:	
1. Enter the P&I portion of the Borrower's monthly Mortgage Payment as of the date the Payment Supplement Period begins.	$
2. Multiply Step 4.a.1 by 25%.	$
3. Enter the principal portion only of the monthly Mortgage Payment as of the date the Payment Supplement Period begins.	$

Step 4.b – Determine Maximum MoPR	
Enter the lesser of Step 4.a.2 or Step 4.a.3 to determine the maximum MoPR.	$ Proceed to Step 5.
Step 5 – Calculate the MoPR	**Result**
Step 5.a – Determine if the Borrower has Sufficient Partial Claim Funds Available to Achieve the Maximum MoPR for 36 Months	
1. Multiply the result of Step 4.b by 36 months to determine the amount needed to provide 36 months of the maximum MoPR.	$
2. Is the amount of Partial Claim funds available for the MoPR in Step 3.a greater than or equal to the maximum MoPR for 36 months?	If yes, the maximum MoPR calculated in Step 4.b is the MoPR for the Payment Supplement Period. Proceed to Step 6. If no, proceed to Step 5.
Step 5.b – If the Borrower does not have Sufficient Partial Claim Funds Available for a Maximum MoPR for 36 Months (as Calculated in Step 5.A.), Calculate the MoPR	
Divide the amount of Partial Claim funds available for the MoPR in Step 3.a by 36.	$ This is the MoPR for the Payment Supplement Period. Proceed to Step 6.
Step 6 – Payment Reduction Test: Determine if a MoPR of no less than 5% and no less than $20 can be Achieved for 36 Months	**Result**
a. Divide the MoPR as determined in Step 5 by the current P&I payment in Step 4.a.1.	%
b. Is the result in Step 6.a greater than or equal to 5%?	Yes/No
c. Is the amount of the MoPR as determined in Step 5 equal to or greater than $20?	Yes/No
d. Are the results in both Step 6.b and Step 6.c “Yes”?	Yes/No If yes, the Borrower is eligible for the MoPR calculated in Step 5 for the 36 months of the Payment Supplement Period. Proceed to Step 7. If no, the Borrower is not eligible for the Payment Supplement. The Mortgagee must offer the Borrower the lowest monthly P&I payment achieved under either a 40-Year Combination Loan Modification and Partial Claim or a Standalone Partial Claim, if sufficient funds are available.

Step 7 – Compare Savings with Available Permanent Home Retention Options
Compare the Borrower's proposed P&I monthly payment under the Payment Supplement with the Borrower's proposed P&I monthly payment under a 40-Year Combination Loan Modification and Partial Claim to determine the greater payment reduction. • If the Borrower is able to achieve a lower monthly P&I payment with the 40-Year Combination Loan Modification and Partial Claim, the Mortgagee must offer the Borrower the 40-Year Combination Loan Modification and Partial Claim. • If the Borrower is not able to achieve a lower monthly P&I payment utilizing the 40-Year Combination Loan Modification and Partial Claim, the Mortgagee must offer the Borrower the Payment Supplement.

APPENDIX 5.0 – HUD SCHEDULE OF STANDARD POSSESSORY ACTION AND DEED-IN-LIEU OF FORECLOSURE ATTORNEY FEES (APPLIES TO SERVICING ONLY) (03/31/2022)

HUD will reimburse Mortgagees for reasonable and customary fees for work actually performed related to the current Default episode that were paid to attorneys and trustees in connection with possessory actions and/or completion of a DIL.

HUD Schedule of Standard Possessory Action Attorney Fees and Deed-in-Lieu of Foreclosure Attorney Fees

State	Possessory Action	Deed-in-Lieu of Foreclosure
AK	$500	$400
AL	$500	$400
AR	$500	$400
AZ	$400	$400
CA	$550	$400
CO	$450	$400
CT	$400	$400
DC	$400	$400
DE	$450	$400
FL	$400	$400
GA	$450	$400
GU	$350	$400
HI	$525	$400
IA	$350	$400
ID	$400	$400
IL	$400	$400
IN	$450	$400
KS	$400	$400
KY	$400	$400
LA	$500	$400
MA	$625	$400
MD	$500	$400
ME	$525	$400
MI	$425	$400
MN	$400	$400
MO	$450	$400
MS	$400	$400
MT	$400	$400
NC	$400	$400
ND	$350	$400
NE	$350	$400
NH	$425	$400
NJ	$500	$400

State	Possessory Action	Deed-in-Lieu of Foreclosure
NM	$400	$400
NV	$650	$400
NY	$725	$400
OH	$600	$400
OK	$350	$400
OR	$400	$400
PA	$450	$400
PR	$300	$400
RI	$525	$400
SC	$450	$400
SD	$400	$400
TN	$375	$400
TX	$400	$400
UT	$400	$400
VA	$600	$400
VI	$300	$400
VT	$375	$400
WA	$450	$400
WI	$400	$400
WV	$400	$400
WY	$500	$400

APPENDIX 6.0 – FIRST LEGAL ACTIONS TO INITIATE FORECLOSURE AND REASONABLE DILIGENCE TIME FRAMES (APPLIES TO SERVICING ONLY) (09/30/2016)

State Code	State	Typical Type of HUD Security Instrument	Preferred Method of Foreclosure	First Legal Action to Initiate Foreclosure	Reasonable Diligence Time Frame (in months)
01	Alabama	Mortgage	Nonjudicial	Publication	6
11	Alaska	Deed of Trust	Nonjudicial	Recording of Notice of Default	10
02	Arizona	Deed of Trust	Nonjudicial	Recording of Notice of Sale	6
03	Arkansas	Deed of Trust	Nonjudicial	Recording of Notice of Sale	11
04	California	Deed of Trust	Nonjudicial	Recording of Notice of Default	12
05	Colorado	Deed of Trust	Nonjudicial	Filing of Foreclosure Documents with Public Trustee	12
06	Connecticut	Mortgage	Judicial	Delivering Complaint to Sheriff	21
07	Delaware	Mortgage	Judicial	Complaint	26
08	District of Columbia[1]	Deed of Trust	Nonjudicial	Notice of Default Mayor	7
		Deed of Trust	Judicial	Complaint	7
09	Florida	Mortgage	Judicial	Complaint	25
10	Georgia	Security Deed	Nonjudicial	Publication	6
83	Guam	Mortgage	Nonjudicial	Posting and Publishing of Notice of Sale	11
14	Hawaii	Mortgage	Judicial	Complaint	30
		Mortgage	Nonjudicial	Publication of Notice of Intent to Foreclose	6
12	Idaho	Deed of Trust	Nonjudicial	Recording of Notice of Default	13
13	Illinois	Mortgage	Judicial	Complaint	17
15	Indiana	Mortgage	Judicial	Complaint	13
16	Iowa	Mortgage	Judicial	Petition	17
		Deed of Trust	Nonjudicial	Filing of Notice or Voluntary Foreclosure Agreement with Recorder	9
18	Kansas	Mortgage	Judicial	Complaint	10

State Code	State	Typical Type of HUD Security Instrument	Preferred Method of Foreclosure	First Legal Action to Initiate Foreclosure	Reasonable Diligence Time Frame (in months)
20	Kentucky	Mortgage	Judicial	Complaint	14
22	Louisiana	Mortgage	Judicial	Petition for Executory Process	12
23	Maine	Mortgage	Judicial	Complaint	27
24	Maryland	Mortgage	Judicial	Complaint	18
		Deed of Trust	Nonjudicial	Filing an Order to Docket	18
25	Massachusetts	Mortgage	Nonjudicial	Filing of Complaint[2]	9
26	Michigan	Mortgage	Nonjudicial	Publication	9
27	Minnesota	Mortgage Deed	Nonjudicial	Publication	10
28	Mississippi	Deed of Trust	Nonjudicial	Publication	9
29	Missouri	Deed of Trust	Nonjudicial	Publication	5
31	Montana	Trust Indenture	Nonjudicial	Recording of Notice of Sale	9
32	Nebraska	Mortgage	Judicial	Petition	8
		Deed of Trust	Nonjudicial	Publication of Notice of Sale	8
33	Nevada	Deed of Trust	Nonjudicial	Recording of Notice of Default	24
34	New Hampshire	Mortgage	Nonjudicial	Publication	11
35	New Jersey	Mortgage	Judicial	Complaint	19
36	New Mexico	Mortgage	Judicial	Complaint	25
37	New York City	Mortgage	Judicial	Complaint	27
	New York	Mortgage	Judicial	Complaint	21
38	North Carolina	Deed of Trust	Nonjudicial	Notice of Hearing	9
40	North Dakota	Mortgage	Judicial	Complaint	15
41	Ohio	Mortgage Deed	Judicial	Complaint	13
42	Oklahoma	Mortgage	Judicial	Petition	14
43	Oregon	Deed of Trust	Nonjudicial	Recording of Notice of Default	30
44	Pennsylvania	Mortgage	Judicial	Complaint	21
50	Puerto Rico	Mortgage	Judicial	Complaint	21
45	Rhode Island	Mortgage	Nonjudicial	Publication	22

State Code	State	Typical Type of HUD Security Instrument	Preferred Method of Foreclosure	First Legal Action to Initiate Foreclosure	Reasonable Diligence Time Frame (in months)
46	South Carolina	Mortgage	Judicial	Complaint	14
47	South Dakota	Mortgage	Judicial	Complaint	14
		Deed of Trust	Nonjudicial	Publication of Notice of Sale	9
48	Tennessee	Deed of Trust	Nonjudicial	Publication	6
49	Texas	Deed of Trust	Nonjudicial	Posting and Filing of the Notice of Sale	8
52	Utah	Mortgage	Judicial	Complaint	12
		Deed of Trust	Nonjudicial	Recording of Notice of Default	12
53	Vermont	Mortgage	Judicial	Complaint	24
54	Virginia	Deed of Trust	Nonjudicial	Publication	7
82	Virgin Islands	Mortgage	Judicial	Complaint	15
56	Washington	Deed of Trust	Nonjudicial	Recording of Notice of Trustee's Sale	18
57	West Virginia	Deed of Trust	Nonjudicial	Publication	7
58	Wisconsin	Mortgage	Judicial	Complaint	12
59	Wyoming	Mortgage	Nonjudicial	Publication	7

Footnotes:

1. Loans secured by a Deed of Trust are normally foreclosed using nonjudicial procedures provided in D.C. Code § 42-815. Mortgagees may elect to foreclose using judicial procedures established pursuant D.C. Code § 42-816 instead when it is determined to be warranted for a particular Mortgage.
2. The Mortgagee must first obtain a Judgment from the Land Court verifying that the Borrowers are not entitled to relief under the Servicemembers Civil Relief Act (SCRA).

APPENDIX 6.1 – AUTOMATIC EXTENSIONS TO HUD'S INITIATION OF FORECLOSURE TIMELINE (11/10/2026)

Extension	Description
Repayment Plans	If the Repayment Plan fails, the Mortgagee must evaluate the Borrower for the other Loss Mitigation Options. If the Borrower is not approved for a different Loss Mitigation Option, the Mortgagee must initiate foreclosure. HUD provides an automatic 90-Day extension during which the Mortgagee must take one of these actions.
Forbearance	HUD provides automatic 90-Day extensions to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure following the expiration of the Forbearance. If the Forbearance fails, the Mortgagee must evaluate the Borrower for another Loss Mitigation Option. If the Borrower is not approved for a Loss Mitigation Option, the Mortgagee must commence or recommence foreclosure. HUD provides an automatic 90-Day extension during which the Mortgagee must take one of these actions.
Special Forbearance	Mortgagees are allowed an automatic 90-Day extension from the failure of a Special Forbearance (SFB) – Unemployment or completion of an SFB to review for additional loss mitigation options or to initiate foreclosure.
Trial Payment Plan Failure	If the Borrower fails a TPP and is not eligible for another Permanent Home Retention Option, the Mortgagee must evaluate the Borrower for Home Disposition Options. HUD provides an automatic 90-Day extension for the Mortgagee to approve another Loss Mitigation Option, or to commence or recommence foreclosure, should a TPP fail.
Loss Mitigation	HUD provides automatic 90-Day extensions to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure, provided the Mortgagee has: • evaluated and approved the Borrower for a Loss Mitigation Option prior to the expiration of the initial six-month period to initiate foreclosure, or issued an ATP in the PFS Program resulting in early termination or option failure; • reported the Loss Mitigation Option via SFDMS; and • initiated foreclosure action after reviewing the Borrower for other Loss Mitigation Options from the date the Borrower defaulted under a Loss Mitigation Option or a TPP Agreement failed.

Extension	Description
Loss Mitigation Denial	If the Permanent Home Retention Option or OWL is denied, the Mortgagee must evaluate the Borrower for a Home Disposition Option. If the Borrower is denied for a Home Disposition Option, the Mortgagee must commence, recommence, or resume foreclosure no later than 90 Days after denial of the Loss Mitigation Option. HUD provides an automatic 90-Day extension to the initiation of foreclosure timeline in any case in which the Mortgagee needs additional time to comply with the appeals process required by the CFPB Loss Mitigation regulations under RESPA (Regulation X) at 12 CFR § 1024.41. The 90-Day extension begins on the date the Mortgagee denies loss mitigation and sends the Borrower the notice required under CFPB regulations.
Pre-Foreclosure Marketing Period	HUD provides an automatic two-month extension to the deadline to initiate foreclosure for completion of a PFS transaction if there is a signed contract of sale, but settlement has not occurred by the end of the fourth month following the date of the Borrower's ATP in the PFS Program.
Pre-Foreclosure Sale	After PFS early termination or option failure, HUD provides an automatic 90-Day extension to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure. The automatic 90-Day extension begins the Day after the PFS ATP is terminated or expires.
Bankruptcy	If federal bankruptcy does not permit commencement of foreclosure within the standard six-month time frame, or requires foreclosure to be discontinued, HUD provides an automatic extension for the Mortgagee to commence or, if applicable, recommence foreclosure within 90 Days after the applicable release of stay or bankruptcy discharge date.
Presidentially-Declared Major Disaster Areas	HUD provides the Mortgagee an automatic 90-Day extension from the date of the moratorium expiration date to evaluate the Borrower under HUD's Loss Mitigation for Borrowers in PDMDAs or commence or recommence foreclosure action.
Servicemembers Civil Relief Act (SCRA)	Mortgagees are allowed an automatic 90-Day extension from the date the applicable SCRA foreclosure moratorium expires.
Federal Law or Regulations	Where a federal regulation requires a delay in the initiation of foreclosure, the Mortgagee must initiate foreclosure no later than 90 Days after the expiration of the time during which foreclosure is prohibited. HUD provides an automatic 90-Day extension to commence or, if applicable, recommence foreclosure within 90 Days.

Extension	Description
State Legislation	In states where the Mortgagee must delay, cancel, and/or reschedule a foreclosure action to comply with state law requirements, HUD provides an automatic 90-Day extension after the expiration of the time during which foreclosure is prohibited to commence, where: • the foreclosure sale would have been conducted in the required time frame but was canceled to comply with state law; and • the initial legal action to commence foreclosure was timely.

APPENDIX 7.0 – PROPERTY PRESERVATION ALLOWANCES AND SCHEDULES (APPLIES TO SERVICING ONLY) (11/14/2023)

A. MAXIMUM PROPERTY PRESERVATION ALLOWANCES

CLAIM SUBMISSION AND DOCUMENTATION COSTS	
Maximum Property Preservation Allowance	$5,000[1]
Photographs	Maximum $30 per property
Local Requirements (Vacant Property Registration (VPR))	Actual cost to register and comply with all VPR ordinance requirements (provide supporting documentation)
INSPECTIONS	
Initial Occupancy Inspection	$30/$20 per each additional unit
Occupancy Follow-Up Inspections	$30/$20 per each additional unit
Vacant Inspections (Ongoing) • First-Time Vacant Property Inspection (One time) • Follow-Up Vacant Property Inspections	 $45/$30 per each additional unit $45/$30 per each additional unit
SECURING THE PROPERTY	
Emergency Contact Information Posting	
Emergency Contact Posting including Address Posting	$10 one time reimbursement
Lockbox, including duplicate HUD coded keys	$40 one time reimbursement
Locksets	
Lockset replacement – Front or Main Entranceway	$60 per door/door set
Lockset replacement – other than above	$20 each
Rekeying	$10 per keyhole
Padlock/Hasp Installation	$40 each
Doors	
Replace Exterior Door – Prehung Steel	$800 each
Replace Overhead Door	$800 single bay door $1,000 double bay door
Repair Overhead Door	$100 maximum per property
Glazing/Windows	
Reglazing	$1.50 per United Inch (U.I.) (Length (in.) of one side + Width (in.) of one side = Total U.I.)
Window Lock Replacement	$5 each; maximum $50 per property
Door slider lock, anti-lift blocks, security bars	$25 each

[1] The $5,000 maximum cost limit does not include the cost of the following expenses: debris removal, grass cutting, boarding, inspections, securing of swimming pools, sump pumps, demolition, vacant property registration fees, and utilities. These expenses do not require an over-allowable request when the cost is equal to or less than Appendix 7.0 – Property Preservation Allowances and Schedules.

Boarding/Securing of doors and windows	
Boarding/Securing Materials	$.90 per U.I.
Swimming Pools, Spas, and Hot Tubs	
Swimming Pool Securing – In-ground	Maximum $1,250 for all work, including cover installation
Swimming Pool Securing – Above ground	Maximum $500 for all work, including cover installation
Spa and Hot Tub Securing	Maximum $50 for all work, including cover installation
Swimming Pool Draining	Maximum $300 per property
Above Ground Swimming Pool Removal	Maximum $500 per property
Swimming Pool Maintenance	Maximum $100 monthly
Winterization	
Dry Winterization	Maximum $100 each unit
Wet/Steam Winterization	Maximum $150
Wet/Steam Winterization – additional unit	Maximum $90
Radiant Winterization	Maximum $250
Radiant Winterization – additional unit	Maximum $125
Reduced Pressure Zone (RPZ) Valves	Maximum $150, where required by state or local law
Swimming Pools and Spas	Maximum $200 per property per 12-month period
Re-winterization	$50 each occurrence
Utilities, Power Supply, Water Supply, Gas Supply	
Electricity, Gas, Oil, Propane, Water and Sewer	Actual cost – one time shut off/transfer fee as assessed by local utility entities
Water well closing and disconnection	$80 for all work required – one time shut-off per property
Initial water line pressure testing	$20
Wire Capping	$1 each; maximum $25 per property
Water, Sewer, or Gas Capping	$15 each; maximum $90 per property
Smoke Detectors – when required by AHJ	$15 each
CO2 Monitor – when required by AHJ	$25 each
Roof Assembly Repair	
Temporary Roof Repair/Tarping	Maximum $600 per property
Permanent Roof Repair/Patching	Maximum $1,000 per property
Chimney Capping	Maximum $100 each
Foundation Drainage Systems and Basements	
Basement Water Pumping	Maximum $500 per property
Gutter Cleaning and Repair	$1 per linear foot (LF); Maximum $100 per property
Gutter Replacement (missing sections only)	$4.70 per LF; Maximum $400 per property
Molds, Fungus, Discoloration and Related Moisture Damage and Organic Growth	
Dehumidifier Purchase and Installation	Maximum $250 each
Absorbent Moisture Desiccants	$20 each; maximum $100 per 12 month period
Mold Treatment including Medium Removal, mold inhibitor chemicals, mold inhibiting paints	$300 Maximum per property
Sump Pumps	
Sump Pump Replacement/Installation	Maximum $300 per property
Sump Pump Repair	Maximum $50

Debris Removal, Cleaning, and Minor Repair	
Debris Removal, Interior and Exterior	Maximum $1,250
Debris Removal, Interior and Exterior – additional waste	$50 per cubic yard (CY)
Broom Swept Cleaning	$50
Refrigerator and Freezer Cleaning	$50
Toilet Cleaning	$50
Clothes Dryer Vent Cover Installation	$ 20 each
Pest Extermination (professional services with documented need)	Maximum $300 (provide payment evidence)
Pest Extermination (Over-the-counter products)	$30 each; maximum $90 per 12 month period
Dead Animal Removal	$50 per occurrence
Vehicle/Boat Removal	Maximum $210 per vehicle
Fencing Repair	$300 for all work required
Handrails	$10 per linear foot (LF) Maximum $200 per property
Carpet Removal including removal of tack strips	$.20 per square foot (SF) Maximum $400 per property
Demolition of Dilapidated/Unsafe Outbuildings and Sheds	$1 per square foot; Maximum $400 per property
Professional reports (Hazardous material identification and testing) - Reimbursement for positive results only	Maximum $1,100 per property
Police and Fire Reports	$20 each
Personal Property Storage	
Storage and disposition	Maximum $300 per property
MAINTENANCE	
Yard Maintenance	
Initial Desert Landscaping Maintenance	Maximum $300
Recut Desert Landscaping Maintenance	Maximum $200 per 12 month period
Grass Cuts	Refer Attachment B
Tree Trimming	Maximum $250 per 12 month period
Shrub Trimming	Maximum $200 per 12 month period
Snow Removal	
Snow/Ice Removal	Maximum $75 per occurrence
Utilities	
Utility Costs	Actual costs as invoiced by power and utility entities

B. WINTERIZATION SCHEDULE

Required Winterization Period	State or Territory
All Year	Alaska
September 1 through April 30	Colorado; Connecticut; Idaho; Illinois; Indiana Iowa; Maine; Massachusetts; Michigan; Minnesota; Montana; Nebraska; New Hampshire; New Jersey; New York; North Dakota; Ohio; Oregon; Pennsylvania; Rhode Island; South Dakota; Vermont; Washington; Wisconsin; Wyoming

Required Winterization Period	State or Territory
October 1 through March 31	Alabama; Arizona; Arkansas; California; Delaware; Florida; Georgia; Kansas; Kentucky; Louisiana; Maryland; Mississippi; Missouri; Nevada; New Mexico; North Carolina; Oklahoma; South Carolina; Tennessee; Texas; Utah; Virginia; West Virginia; Washington, DC
Winterization not required	Hawaii; Guam; Northern Mariana Islands; American Samoa; Puerto Rico; U.S. Virgin Islands

C. GRASS CUT SCHEDULE

State or Territory	Initial Cut (1 - 10,000 sf)	Initial Cut (10,001 sf - 20,000 sf)	Recuts (1 - 10,000 sf)	Recuts (10,001 sf - 20,000 sf)
NOTE: Add $25 for each additional 10,000 sf for properties greater than 20,000 sf				
ALL YEAR: ONCE PER MONTH				
Arizona	$75	$95	$70	$90
Nevada	$90	$110	$85	$105
New Mexico	$85	$105	$80	$100
ALL YEAR: TWICE PER MONTH				
California	$100	$120	$95	$115
Florida	$85	$105	$80	$100
Hawaii	$110	$130	$105	$125
Guam, MP, AS	$110	$130	$105	$125
Puerto Rico	$110	$130	$105	$125
U.S. Virgin Islands	$85	$105	$80	$100
APRIL 1 TO OCTOBER 31: ONCE PER MONTH				
Colorado	$85	$105	$80	$100
Utah	$85	$105	$80	$100
Wyoming	$85	$105	$80	$100
APRIL 1 TO OCTOBER 31: TWICE PER MONTH				
Arkansas	$70	$90	$65	$85
Connecticut	$100	$120	$95	$115
Delaware	$95	$125	$90	$120
Idaho	$100	$120	$95	$115
Illinois	$85	$105	$80	$100
Indiana	$85	$105	$80	$100
Iowa	$85	$105	$80	$100
Kansas	$85	$105	$80	$100
Kentucky	$85	$105	$80	$100
Maine	$100	$120	$95	$115
Maryland	$100	$120	$95	$115
Massachusetts	$100	$120	$95	$115
Michigan	$85	$105	$80	$100
Minnesota	$85	$105	$80	$100
Missouri	$85	$105	$80	$100
Montana	$85	$105	$80	$100

State or Territory	Initial Cut (1 - 10,000 sf)	Initial Cut (10,001 sf - 20,000 sf)	Recuts (1 - 10,000 sf)	Recuts (10,001 sf - 20,000 sf)
Nebraska	$85	$105	$80	$100
New Hampshire	$100	$120	$95	$115
New Jersey	$100	$120	$95	$115
New York	$100	$120	$95	$115
North Carolina	$85	$105	$80	$100
North Dakota	$85	$105	$80	$100
Ohio	$85	$105	$80	$100
Oklahoma	$85	$105	$80	$100
Oregon	$100	$120	$95	$115
Pennsylvania	$95	$115	$90	$110
Rhode Island	$100	$120	$95	$115
South Dakota	$85	$105	$80	$100
Tennessee	$85	$105	$80	$100
Vermont	$100	$120	$95	$115
Virginia	$95	$115	$90	$110
Washington	$100	$120	$95	$115
West Virginia	$95	$115	$90	$110
Wisconsin	$85	$105	$80	$100
Washington DC	$95	$115	$90	$110
MARCH 1 TO NOVEMBER 30: TWICE PER MONTH				
Alabama	$70	$90	$65	$85
Georgia	$85	$105	$80	$100
Louisiana	$85	$105	$80	$100
Mississippi	$85	$105	$80	$100
South Carolina	$85	$105	$80	$100
Texas	$85	$105	$80	$100
JUNE 1 TO SEPTEMBER 30: TWICE PER MONTH				
Alaska	$100	$120	$95	$115

APPENDIX 8.0 - FHA DEFECT TAXONOMY (11/10/2026)

I. PURPOSE

The Defect Taxonomy is FHA's quality assurance framework for Title II Loan Reviews. The Defect Taxonomy provides:

- a consistent method of identifying defects **at the loan level**;
- useful data and feedback through structured categorization of defects and their sources, causes, and severities; and
- balance between FHA's risk management and quality assurance business processes.

The Defect Taxonomy **does not**:

- establish a universal statement on all monitoring or enforcement efforts by FHA;
- address FHA's response to patterns of loan-level defects, regardless of severity;
- limit FHA's actions with regard to fraud or misrepresentation;
- establish standards for administrative or civil enforcement action, which are currently set forth in law;
- preclude FHA from referring Findings of any severity to HUD's Mortgagee Review Board, Departmental Enforcement Center, Office of Fair Housing and Equal Opportunity, or other HUD offices for violations of HUD requirements; or
- affect or override FHA's normal process for referral of fraud, waste, or abuse to the Office of the Inspector General.

FHA uses the Defect Taxonomy for loan reviews conducted by the Office of Single Family Housing's Quality Assurance and Processing and Underwriting Divisions located in Headquarters and the Homeownership Centers. Mortgagees may use the Defect Taxonomy as a reference for their own loan-level Quality Control reviews.

The Defect Taxonomy is not used for any type of audit or review separately conducted by HUD's Office of Finance and Budget or Ginnie Mae.

II. CORE CONCEPTS

A defect is any deviation from HUD policy requirements, regardless of severity.

In the context of Title II Loan Reviews, a Finding refers to a determination by FHA of a defect.

An individual Finding is classified in the Loan Review System (LRS) by its specific defect area, source, and cause.

A. Defect Areas

Defect areas represent the fundamental loan characteristics for each review type based on corresponding HUD policy requirements. Applicable policies are listed in each defect area for reference only. They may not be all-inclusive.

- Underwriting Loan Reviews are categorized into nine defect areas covering loan origination, underwriting, closing, and endorsement for FHA insurance.
- Servicing Loan Reviews are categorized into six defect areas covering servicing and loss mitigation activities throughout the potential lifecycle of an FHA-insured loan.

B. Sources and Causes

Sources and causes are used to describe Findings in greater detail based on the underlying HUD policy violation.

C. Severity Tiers

There are four potential severity tiers, one of which is assigned to each Finding in LRS based on the size and nature of the deviation from FHA requirements. Severity tiers indicate whether a Mortgagee response is required in LRS.

Tier 1 and 2 Findings are unacceptable and require a Mortgagee response. Potential remedies are listed in each defect area. Severity tiers 1 and 2 align with the definition of Material Finding for Mortgagee Quality Control.

Tier 1 is used for Findings of fraudulent or materially misrepresented information about which the Mortgagee knew or should have known. See Fraud or Material Misrepresentation for more details.

Tier 2 is used for:

- underwriting Findings that would have altered the loan's approval and/or eligibility for FHA insurance;
- servicing Findings that require mitigating documentation, corrective servicing action, and/or financial remediation; and
- instances when required documents are missing or contain insufficient information to determine compliance.

Tier 3 and 4 Findings are deficient and do not require a Mortgagee response, but optional responses can be submitted.

Tier 3 is used for:

- underwriting Findings that do not adversely impact the loan's approval and/or eligibility for FHA insurance;
- servicing Findings that do not adversely impact FHA or that are based on loan-level reporting errors that cannot be corrected;
- Findings of noncompliance remedied by the Mortgagee prior to review by FHA; and
- Findings that represent deviations from HUD policy, but which are the consequence of an obligation to comply with other binding federal or state law.

Tier 4 is primarily used for Findings of fraudulent or materially misrepresented information about which the Mortgagee did not know and could not have known. Tier 4 is also used for underwriting Findings when minor data integrity issues exist that are inconsequential to the loan's approval and eligibility.

Mortgagees may rebut any Finding or severity determination by responding in LRS with supporting information. Rebuttals are based on information available to FHA prior to the initial Finding.

III. REMEDIES

In addition to referring a Mortgagee to the Mortgagee Review Board, FHA has the authority to pursue loan-level actions and remedies reasonably related to a Mortgagee's underlying violations. Pursuit of such loan-level actions and remedies does not limit FHA's ability to refer a Mortgagee to the MRB or prevent the MRB from initiating its own action where appropriate.

The purpose of remedies is to mitigate risk to FHA and, if applicable, put Borrowers and/or other affected parties in the position they would have been in absent the violation. In some cases, multiple remedies may be used to address the full impact of an individual Finding.

Remedies are described below for unacceptable Findings in LRS. In each defect area, possible remedies for common policy violations are listed in order based on the degree of impact.

A. Mitigation

Findings may be mitigated in LRS with the Mortgagee's submission of one of the following as requested by FHA:

- additional documentation and/or information that was not included in the original loan file reviewed by FHA, which demonstrates the Mortgagee's compliance with HUD policy requirements; or
- evidence of corrective actions completed by the Mortgagee which, in FHA's determination, adequately addresses the source and cause of the Finding so that the loan no longer presents an unacceptable risk to FHA.

B. Financial Remediation

Consistent with FHA rules and requirements, Mortgagees may financially remediate certain loan-level Findings by submitting documentation showing completion of the requested action in the amount specified by FHA. Financial remediation may include:

- **refunds** to reimburse unallowable, prohibited or erroneous fees, penalties, or other charges to the Borrower;
- **principal reductions** applied to the unpaid principal balance of the loan. For delinquent/defaulted loans, funds may be applied to the Borrower's suspense account;
- **account adjustments** to the Borrower's loan, escrow, or suspense account in the amount necessary for the Servicer to bring the account in compliance with HUD policy and/or demonstrate corrective action; and
- **remittance** of improperly paid servicing claims and/or loss mitigation incentives to HUD.

C. Indemnification

When other remedies are not applicable, or when alternatives have been exhausted, Mortgagees may resolve loan-level Findings in LRS by indemnifying HUD against the risk of financial losses.

As specified in each indemnification agreement, the Mortgagee agrees to abstain from submitting an insurance claim to FHA in connection with the loan, or to reimburse FHA for any loss due to claims paid by FHA.

The term of an underwriting indemnification agreement is either 5-Year (from the loan endorsement date shown in FHA Connection) or Life-of-Loan. The term of a servicing indemnification is either 1-Year or 5-Year (from the date the agreement is signed by both the Servicer and FHA) or Life-of-Loan. Expiration of a 1-Year or 5-Year indemnification is subject to conditions detailed in the agreement.

Some general factors used by FHA to determine the term of an indemnification include:

Term	General Factors
1-Year	Servicing Only • loan is **current** at the time of FHA's review and the Servicer provides documentation of a good faith effort to mitigate the Finding but is unsuccessful due to circumstances beyond the Servicer's control.
5-Year	Underwriting • violations related to the Borrower's credit or income, which impact the Borrower's creditworthiness or capacity to repay the loan; or • noncompliance with FHA requirements for verifying and documenting sufficient funds from an acceptable source to facilitate closing, or for determining the assets used to qualify. Servicing • loan is **not current** at the time of FHA's review and the Servicer provides documentation of a good faith effort to mitigate the Finding, but is unsuccessful due to circumstances beyond the Servicer's control; or • improperly completed mortgage assumption for a Borrower who was not credit qualified.
Life-of-Loan	All Tier 1 Findings of fraud or materially misrepresented information. Underwriting • violations related to property eligibility or valuation; • certain violations of FHA requirements for basic Borrower eligibility; or • HECM policy violations. Servicing • loan is in conveyance or claim status and FHA determines that foreclosure or other Home Disposition Options should not have been completed; or • certain violations of FHA's eligibility standards and requirements described in specific defect areas, regardless of the current status of the loan.

IV. FRAUD OR MATERIAL MISREPRESENTATION

All Findings of fraud or materially misrepresented information are referred to the Office of the Inspector General (OIG), regardless of LRS severity tier or remedy provided by the Mortgagee.

A. Findings of fraud or materially misrepresented information can fall into one of two severity tiers:

- **Tier 1:** the Mortgagee knew or should have known.
- **Tier 4:** the Mortgagee did not know and could not have known.

B. FHA determines if the Mortgagee knew or should have known based on whether:

- an employee of the Mortgagee, sponsored Third-Party Originator, or subservicer was involved; **and/or**
- red flags in the loan file should have been questioned by the Mortgagee.

C. FHA's loan review determinations regarding Findings of fraud or misrepresentation do not affect or override any separate determinations of the Office of the Inspector General through any audit or investigative process.

V. UNDERWRITING LOAN REVIEW

Defect Area 1

Borrower Income (BI)

Source, documentation, and verification requirements for employment and non-employment sources of income used to qualify.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Underwriting with an Automated Underwriting System	Effective Income Analysis
Income Requirements (TOTAL)	Residual Income Analysis
Final Underwriting Decision (TOTAL)	Required Documentation
Income Requirements (Manual)	Final HECM Decision
Final Underwriting Decision (Manual)	Performing the Financial Assessment

Sources

1. Salary or Hourly Wages from Primary Employment
2. Part-Time (Secondary) or Seasonal Employment
3. Overtime and Bonus
4. Self-Employment
5. Retirement- Pension IRA/401(k), or SSI
6. Rental Income from Subject Property
7. Disability from SSA, VA, or Public/Private Source
8. Commission
9. Rental Income from Other Real Estate
10. Other Income Source

Causes

- **A.** Qualifying income amount not supported or not calculated according to policy
- **B.** History, stability, and/or continuance not supported
- **C.** Unacceptable source of income
- **D.** Required documentation or verifications missing, illegible, or incomplete
- **F.** Evidence of Fraud or Misrepresentation

Defect Area 1 (continued)
Borrower Income (BI)

Severity Tiers		**Remedies**
Unacceptable		
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to substantiate the income necessary to support loan approval due to missing documentation; ***or*** borrower income was not supported based on documentation. Effective Income not supported or miscalculated ***and*** when corrected: • ***Loan underwritten with TOTAL Scorecard*** results in a "Refer" risk assessment ***and*** approval cannot be substantiated based on the requirements for manually underwritten loans. • ***Loan underwritten manually (referred or downgraded)*** approval is not substantiated with increase due to insufficient compensating factors or ratio(s) in excess of maximum established by FHA. ***HECM*** Financial Assessment or residual income issue, compensating factors not documented, **and/or** Minimum Life Expectancy Set-Aside was not applied as required **or** HECM approval is not supported based on documentation.	**Mitigating Documentation** ***OR*** **Indemnification** *Forward* • **5 Year** *HECM* • **Life-of-Loan**
Deficient		
3	Required income documentation is out of compliance in some way, however, sufficient information exists to substantiate income necessary to approve the loan. Effective Income not supported or miscalculated ***and*** when corrected: • ***Loan underwritten with TOTAL Scorecard*** results in a "Refer" risk assessment, ***but*** approval is substantiated based on the requirements for manually underwritten loans. • ***Loan underwritten manually (referred or downgraded)*** approval is substantiated by sufficient compensating factors and ratio(s) do not exceed maximum qualifying ratio(s) established by FHA. ***HECM*** Financial Assessment or residual income issue, compensating factors not documented ***but*** Minimum Life Expectancy Set-Aside was applied **and** HECM approval is supported based on documentation.	
4	Minor data errors or inconsistencies between TOTAL Scorecard, loan documentation and/or FHA systems that are inconsequential to the borrower's income/ability to repay, and when corrected, TOTAL risk assessment remains an "Accept". Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 2
Borrower Credit (BC)
Requirements for documenting and evaluating credit reports, credit history, liabilities, and debts.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
General Borrower Eligibility Requirements Underwriting with an Automated Underwriting System Credit Requirements (TOTAL) Final Underwriting Decision (TOTAL) Credit Requirements (Manual) Final Underwriting Decision (Manual)	Borrower Eligibility Credit History Review Requirements Property Charge Payment History Review Requirements Monthly Expense Analysis Required Documentation Final HECM Decision Performing the Financial Assessment

Sources

1. Credit Report and/or Non-Traditional Credit Verification
2. Minimum Decision Credit Score
3. Monthly Obligations
4. Housing and/or Mortgage Payment History
5. Non-Borrowing Spouse SSN, Credit Report, and/or Liabilities in Community Property State
6. Bankruptcy, Foreclosure, Deed-in-Lieu, Short Sale, and/or Credit Counseling/Payment Plan
7. Delinquent Federal Debt
8. Collections, Charge-Offs, Judgments, and/or Disputed Derogatory Accounts
9. Maximum Debt Ratios and Compensating Factors
10. Other Credit or Liability Issue

Causes

A. Required documentation missing, illegible, insufficient, and/or contains unresolved inaccuracies or issues
B. FHA standards not met – credit approval not supported/ borrower ineligible
C. Amount of qualifying debt not supported, omitted, undisclosed, or not calculated according to policy
D. Other Policy Violation
F. Evidence of Fraud or Misrepresentation

Defect Area 2 (continued)
Borrower Credit (BC)

Severity Tiers		**Remedies**
	Unacceptable	
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to determine acceptability, eligibility, underwriting compliance, or cannot calculate monthly debts or obligations based on loan documentation. FHA is able to conclude that the borrower was ineligible and/or aspects of credit were unacceptable to the degree that approval cannot be supported. Amount of qualifying debt not supported, omitted, or miscalculated ***and*** when corrected: • ***Loan underwritten with TOTAL Scorecard*** results in a "Refer" risk assessment ***and*** approval cannot be substantiated based on the requirements for manually underwritten loans. • ***Loan underwritten manually (referred or downgraded)*** approval is not substantiated with increase due to insufficient compensating factors or ratio in excess of maximum established by FHA. ***HECM*** Financial Assessment or credit/property charge payment history does not adhere to FHA standards, extenuating circumstances were not documented, **and/or** Minimum Life Expectancy Set-Aside was not applied as required **or** HECM approval is not supported based on documentation.	**Mitigating Documentation** ***OR*** **Indemnification** *Forward* • **5 Year** *HECM* • **Life-of-Loan**
	Deficient	
3	Required credit documentation is out of compliance in some way, but documentation/information sufficient to substantiate loan approval. Amount of qualifying debt not supported, omitted, or miscalculated ***and*** when corrected: • ***Loan underwritten with TOTAL Scorecard*** results in a "Refer" risk assessment, ***but*** approval is substantiated based on the requirements for manually underwritten loans. • ***Loan underwritten manually (referred or downgraded)*** approval is substantiated by sufficient compensating factors and ratio(s) do not exceed maximum qualifying ratio(s) established by FHA. ***HECM*** Financial Assessment errors or issues with credit and property charge data or extenuating circumstances, ***but*** Minimum Life Expectancy Set-Aside was applied ***and*** HECM approval is supported based on documentation.	
4	Minor data errors or inconsistencies between TOTAL Scorecard, loan documentation and/or FHA systems that are inconsequential to the borrower's credit/ability to repay, and when corrected, TOTAL risk assessment remains an "Accept". Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 3

Loan to Value and Maximum Mortgage Amount (LM)

Allowable Mortgage Parameters for Purchase and Refinance transactions, including program and product-specific requirements that impact the maximum insurable loan amount.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Maximum Mortgage Amounts	Maximum Mortgage Amounts
Loan-to-Value Limits	Maximum Claim Amount
Required Investment	Principal Limit
Interested Party Contributions (TOTAL)	Disbursement Limits
Inducements to Purchase (TOTAL)	Life Expectancy Property Charges
Interested Party Contributions (Manual)	Principal Limit Calculation at Closing
Inducements to Purchase (Manual)	HECM For Purchase
Excessive Mortgage Amounts	HECM Refinance
Programs and Products	

Sources

1. Purchase
2. Rate/Term or Simple Refinance
3. Streamline Refinance
4. Cash-Out Refinance
5. HECM
6. 203(k)
7. New Construction – Proposed, Under Construction, or Existing <1 Year
8. Build-on-Own Land or Construction to Permanent
9. HUD REO
10. Other

Causes

- **A.** Required documentation missing, illegible, or insufficient
- **B.** Violation of maximum mortgage amount or LTV/CLTV limitation
- **C.** Minimum Required Investment (MRI) not met
- **D.** Principal Limit or Maximum Claim Amount, or Life Expectancy Set-Aside violation
- **F.** Evidence of Fraud or Misrepresentation

Defect Area 3 (continued)
Loan to Value and Maximum Mortgage Amount (LM)

Severity Tiers		**Remedies**
	Unacceptable	
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is able to conclude that the maximum mortgage amount and/or LTV exceeds allowable limits **and/or** was not calculated according to applicable FHA policies resulting in over-insurance. The borrower **did not make** the full Minimum Required Investment (MRI) at closing in compliance with statutory requirements. ***HECM*** FHA is unable to determine compliance with applicable policies for HECM Principal Limit or Maximum Claim Amount based on available information and loan file documentation. Principal Limit, Maximum Claim Amount, Disbursement Limit exceeds allowable limits **and/or** • Life Expectancy Set-Aside amount is insufficient **and/or** • HECM loan is over-insured as a result of violation.	**Mitigating Documentation** ***OR*** **Principal Reduction** Allowed for all Tier 2 Findings ***EXCEPT*** • Statutory National Loan Limit violations • HECM violations • Minimum Required Investment (MRI) not met on a purchase **and** shortage exceeds 10% of MRI ***OR*** **Indemnification** • **Life-of-Loan**
	Deficient	
3	Violations exist, but the mortgage amount and/or LTV do not exceed allowable limits and loan is not over-insured. Error in the maximum mortgage amount or LTV identified by Mortgagee post-endorsement and an appropriate principal reduction was made prior to loan review. ***HECM*** Error or miscalculation related to Principal Limit, Maximum Claim Amount, Disbursement Limit, **but** allowable limits not exceeded ***and*** • Life Expectancy Set-Aside amount is sufficient; **and** • HECM loan is not over-insured as a result of violation.	
4	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 4

Borrower Assets (BA)

Guidelines and source requirements for the borrower's Minimum Required Investment (MRI) and verification of other funds at underwriting.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Underwriting with an Automated Underwriting System Asset Requirements (TOTAL) Final Underwriting Decision (TOTAL) Asset Requirements (Manual) Final Underwriting Decision (Manual)	Asset Requirements Required Documentation Final HECM Decision Performing the Financial Assessment

Sources

1. Checking/Savings Accounts
2. Gifts
3. Secondary Financing
4. Earnest Money or Other Deposits on Purchase
5. Large Deposits
6. Collateralized Loans or Unsecured Borrowed Funds
7. Retirement Accounts
8. Sale of Personal Property
9. Sale of Real Estate
10. Other Asset Type

Causes

A. Asset not sourced, input improperly, or required documentation missing, illegible, or insufficient
B. Minimum Required Investment (MRI) not verified by underwriter or unacceptable source of funds
C. HECM monetary investment not verified or from unacceptable source
D. Other funds required to close and/or assets used to support approval not verified or supported
F. Evidence of Fraud or Misrepresentation

Defect Area 4 (continued)
Borrower Assets (BA)

Severity Tiers		**Remedies**
	Unacceptable	
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	The amount of the borrower's full MRI, Cash to Close (non-MRI), or HECM monetary investment, not fully verified by the underwriter; and/or Funds to pay off debts, reserves required for 3-4 unit properties and Manually Underwritten loans, funds supporting the amount entered to TOTAL, or other assets required on a HECM were not verified by the underwriter; ***and*** • Based on loan documentation, FHA determines that the borrower was unlikely to have accumulated sufficient funds by the closing date, there is a strong indication the funds were from an unacceptable source, and/or the borrower would not have otherwise qualified.	**Mitigating Documentation** ***OR*** **Indemnification** *Forward* • **5 Year** *HECM* • **Life-of-Loan**
	Deficient	
3	Part of the borrower's full MRI, Cash to Close (non-MRI), or HECM monetary investment, not fully verified by the underwriter; and/or Funds to pay off debts, reserves required for 3-4 unit properties and Manually Underwritten loans, funds supporting the amount entered to TOTAL, or other assets required on a HECM, were not verified by the underwriter; ***but*** • Based on loan documentation, FHA determines that the borrower was likely to have accumulated sufficient funds from an acceptable source by the closing date and would have otherwise qualified.	
4	Minor data errors or inconsistencies between TOTAL Scorecard, loan documentation and/or FHA systems related to borrower assets, and when corrected, TOTAL risk assessment remains an "Accept" and borrower eligibility is otherwise supported. Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 5

Property Eligibility (PE)

Minimum property acceptability and eligibility standards for FHA insurance, including program and product-specific variations.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Property Eligibility and Acceptability Criteria Legal Restrictions on Conveyance (Free Assumability) Property Acceptability Criteria Mortgagee Closing Requirements Inspection and Repair Escrow Requirements for Mortgages Pending Closing or Endorsement in Presidentially-Declared Major Disaster Areas Programs and Products Application of Minimum Property Requirements and Minimum Property Standards by Construction Status Minimum Property Requirements and Minimum Property Standards	Property Acceptability Criteria Inspection and Repair Requirements for HECMs Pending Endorsement in Presidentially-Declared Major Disaster Areas HECM For Purchase Condominiums Application of Minimum Property Requirements and Minimum Property Standards by Construction Status Minimum Property Requirements and Minimum Property Standards

Sources

1. Property Acceptability and/or Eligibility
2. Minimum Property Requirements / Minimum Property Standards
3. Flood Certification and/or Special Flood Hazard Area Requirements
4. Manufactured Housing
5. Legal Restrictions on Conveyance (Free Assumability)
6. Property Ownership and/or Transfer History
7. Condo – Project Approval or Loan Level Certifications
8. Program & Product Specific Property Eligibility Requirements
9. Presidentially Declared Major Disaster Area Requirements
10. Other Property Eligibility Issues

Causes

- **A.** Missing, illegible, or incomplete documentation to support acceptability or eligibility
- **B.** Unallowable Property Type, Use, and/or Zoning
- **C.** Repairs or Rehabilitation not complete and/or inspections not properly documented
- **D.** Restrictions on Resales/Flipping and/or owner of record requirements not met
- **F.** Evidence of Fraud or Misrepresentation

Defect Area 5 (continued)
Property Eligibility (PE)

Severity Tiers		**Remedies**
Unacceptable		
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to determine acceptability, eligibility, or compliance with applicable policies for Property Eligibility due to absence of required documentation. FHA is able to conclude that the property did not meet Property Eligibility requirements based on documentation in the loan file.	**Mitigating Documentation** ***OR*** **Principal Reduction** Allowed for all Tier 2 Findings ***where*** • repairs or rehabilitation not completed as required • unused escrow funds exist **NOTE:** In any case where documentation does not evidence completion/status of repairs or rehabilitation per FHA guidelines, Minimum Property Requirements, or Minimum Property Standards are not met, principal reduction must be made **before and in addition to** life-of-loan indemnification. ***OR*** **Indemnification** • **Life-of-Loan**
Deficient		
3	Compliance errors, inconsistencies, or missing information identified within the Property Eligibility documentation, but FHA is able to conclude that the property is eligible.	
4	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 6

Property Appraisal (PA)

Appraiser requirements, acceptable reporting forms, valuation and reporting protocols, and property type-specific requirements that impact collateral.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Underwriting the Property Programs and Products Appraiser and Property Requirements for Title II Forward and Reverse Mortgages	Underwriting the Property HECM For Purchase Condominiums Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

Sources

1. Appraiser
2. Appraisal Report- including all required forms/exhibits/addenda
3. Comparable Sales
4. New Construction Documentation
5. Second Appraisal
6. Appraisal Update
7. Other Appraisal, Collateral, or Valuation issue

Causes

- **A.** Form(s) missing, expired, invalid, illegible, contains errors, or incorrect form used
- **B.** Valuation & Reporting Protocols not met (Appraiser Responsibilities)
- **C.** Appraised Value is not supported
- **D.** Other Policy Violation
- **F.** Evidence of Fraud or Misrepresentation

Defect Area 6 (continued)
Property Appraisal (PA)

Severity Tiers		**Remedies**
Unacceptable		
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to determine appraiser and/or underwriter compliance with applicable policies for the appraisal, collateral valuation, or property acceptability due to absence of valid documentation. FHA is able to conclude that the property was not appraised and/or underwritten in compliance with applicable policies and the appraised value is not supported or the property is not acceptable as a result. Documentation required for specific property types, programs/products, or by construction status was not obtained to support FHA max insurable loan amount.	**Mitigating Documentation** ***OR*** **Indemnification** • **Life-of-Loan**
Deficient		
3	Compliance errors, inconsistencies, or missing information identified within the Property Appraisal documentation, but FHA can conclude that there is no impact on the valuation or property acceptability.	
4	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 7
Borrower Eligibility (BE)
General eligibility criteria for borrowers, including program and product-specific variations.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
General Borrower Eligibility Requirements Occupancy Types Programs and Products	Individuals Required to Receive HECM Counseling *Certificate of HECM Counseling* General Requirements HECM Application and Initial Supporting Documentation Borrower, Eligible Non-Borrowing Spouse, and Other Non-Borrowing Household Member Authorizations Preliminary Review of Borrower Eligibility Requirements General Borrower Eligibility Requirements HECM For Purchase HECM Refinance

Sources

1. Borrower SSN and/or Identity
2. Borrower citizenship or lawful residency status
3. Borrower Age Restrictions
4. Borrower has another property already under HECM rule
5. Program/Product Specific Borrower Eligibility Requirement
6. Borrower on Exclusionary List(s)
7. Multiple FHA Loans/Exceptions
8. Non-owner Occupant co-Borrower or Co-signer
9. General Borrower Eligibility

Causes

- **A.** Documentation of eligibility missing, illegible, improperly documented, or not validated
- **B.** Ownership and/or Occupancy Requirements not met
- **C.** Borrower is ineligible for FHA insurance
- **D.** Other Policy Violation
- **F.** Evidence of Fraud or Misrepresentation

Defect Area 7 (continued)
Borrower Eligibility (BE)

Severity Tiers		**Remedies**
Unacceptable		
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to determine acceptability, eligibility, or compliance with applicable eligibility policies due to absence of required documentation, authorizations, and/or validations. FHA is able to conclude that borrower(s) was ineligible based on loan file documentation or other available information. Borrower ownership and/or occupancy requirements, including program and policy specific policies, were not met.	**Mitigating Documentation** ***OR*** **Indemnification** • **Life-of-Loan**
Deficient		
3	Compliance errors, inconsistencies, or missing information identified in loan documents, but FHA can conclude that the borrower was eligible based on other documentation or validating information.	
4	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 8
Mortgage Eligibility (ME)
Compliance standards for valid and enforceable FHA-insured Mortgages, including program and product-specific variations.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Sales Contract and Supporting Documentation	General HECM Insurance Eligibility
HUD Required Disclosures	Valid First and Second Liens
Mortgage Purpose	Payment Plan
Valid First Liens	Maximum Mortgage Term
Maximum Mortgage Term	Mortgage Insurance Premiums
Mortgage Insurance Premiums	Mortgage and Note
Title	HECM Security Instrument
Mortgage and Note	HECM Second Security Instrument, if Applicable
Mortgagee Pre-endorsement Review Requirements	Title Insurance
Endorsement and Post-endorsement	Endorsement and Post-endorsement
Programs and Products	Sales Contract and Supporting Documentation
	HUD Required Disclosures
	Mortgage and Note
	HECM Refinance

Sources

1. Mortgage Term
2. Mortgage Insurance Premiums
3. Program & Product Specific Requirements
4. Title and/or FHA Lien Position
5. Non-Profit, Government Agency, Living Trust, or Power of Attorney
6. Mortgage, Note, Riders, and Allonges
7. Sales Contract, Addenda, Amendments, and Related Certifications

Causes

- **A.** Acceptable documentation of eligibility missing, illegible, improperly completed/incomplete, or incorrect form used
- **B.** Improper Application of FHA Policy
- **C.** Other Mortgage Eligibility Issue
- **F.** Evidence of Fraud or Misrepresentation

Defect Area 8 (continued)
Mortgage Eligibility (ME)

Severity Tiers		**Remedies**
Unacceptable		
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to determine mortgage acceptability or compliance with applicable eligibility policies due to absence of required documentation. FHA is able to conclude that mortgage is not in compliance with applicable policies based on loan file documentation or other available information. Mortgage does not comply with the program/product specific requirements for which it was approved and would not have been eligible under any other FHA program/product.	**Mitigating Documentation** ***OR*** **Indemnification** *Forward* • **5 Year** *HECM* • **Life-of-Loan**
Deficient		
3	Compliance errors, inconsistencies, or missing information identified in loan documentation, but FHA can conclude that the mortgage was eligible based on other documents or validating information. Mortgage does not comply with the program/product specific requirements for which it was approved but it would have been eligible under another FHA program/product.	
4	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

Defect Area 9

Lender Operations (LO)

Standard loan-level requirements for Mortgagee origination, processing, underwriting, closing, and pre-/post-endorsement, including data integrity.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Post-approval Operations	Post-approval Operations
Applications and Disclosures	Origination/Counseling Requirements
Underwriting with an Automated Underwriting System	Origination/Processing
Final Underwriting Decision (TOTAL)	Performing the Financial Assessment of the Borrower
Final Underwriting Decision (Manual)	Closing
Closing	Mortgagee Pre-endorsement Review Requirements
Mortgagee Pre-endorsement Review Requirements	Procedures for Endorsement
Procedures for Endorsement	Endorsement and Post-Endorsement
Endorsement and Post-endorsement	

Sources

1. NMLS Registration Issues
2. Loan Estimate(s), Closing Disclosure, and/or Certifications
3. Escrow accounts not properly established
4. Late Endorsement or Pre-Endorsement Delinquency
5. Unresolved Data Integrity Issues
6. Application & Underwriting Forms – URLA/1003, 92900a, 92800.5B, 92900LT
7. HECM Loan Agreement or Financial Assessment
8. FHA Program Participation/ Exclusionary List(s)
9. TOTAL Scorecard/AUS Feedback Certificate
10. Loan Review Case Binder Submission
11. Other

Causes

A. Required documentation missing, illegible, improperly completed, or incorrect form used
B. Unallowable, undisclosed, or excess Closing Costs and/or Fees
C. Loan closed or endorsed out of compliance with underwriting approval
D. Other Policy Violation
F. Evidence of Fraud or Misrepresentation

Defect Area 9 (continued)
Lender Operations (LO)

Severity Tiers		**Remedies**
Unacceptable		
1	Evidence of fraudulent or materially misrepresented information about which the **Mortgagee knew or should have known**.	**Indemnification** • **Life-of-Loan**
2	FHA is unable to determine loan-level compliance with operational policies and procedures due to absence of required information/documentation. FHA is able to conclude that the loan is uninsurable due to noncompliance with operational policies and procedures based on documentation in the loan file.	**Mitigating Documentation** ***OR*** **Refund** Allowed to remedy related violations ***unless*** • FHA policy specifically prohibits post-endorsement refunds ***OR*** **Indemnification** *Forward* • **5 Year** *HECM* • **Life-of-Loan**
Deficient		
3	Compliance errors, inconsistencies, or missing information related to operational policies and procedures, but sufficient documentation/information exists to substantiate approval.	
4	Minor data integrity errors or inconsistencies between TOTAL Scorecard, loan documentation and/or FHA ***but*** when corrected, TOTAL risk assessment remains "Accept" and approval is otherwise validated. Evidence of fraudulent or materially misrepresented information about which the **Mortgagee did not know and could not have known**.	

VI. SERVICING LOAN REVIEW

Defect Area 1

Servicer Operations (SO)

Standards and procedures applicable to the servicing of all FHA-insured Single Family Mortgages, including the Servicer's responsibility for records management, required actions, and various processing functions in the course of mortgage servicing regardless of loan performance.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Rehabilitation Escrow Account Assumptions – Origination/Underwriting Servicing Roles and Responsibilities Responsibility for Servicing Actions Providing Information to HUD and HUD-Approved Counseling Agencies Communication with Borrowers and Authorized Third Parties Post-endorsement Mortgage Amendments Disclosures Record Retention – Servicing File Presidentially-Declared Major Disaster Areas Programs and Products Assumptions – Servicing/Loss Mitigation	Servicing in Compliance with Law Responsibility for Servicing Actions Providing Information to HUD Communication with Borrowers and Authorized Third Parties Set-Asides Completion of Required Repairs Post-endorsement HECM Amendments Occupancy Certification Property Maintenance Optional Assignment Demand Assignment Repurchase of Previously Assigned HECM Record Retention Presidentially-Declared Major Disaster Areas

Sources

1. Servicing File
2. Sale of Mortgage
3. Servicing Transfer
4. Borrower Communications and Requests
5. Partial Release or Modification of Security
6. Assumption Processing
7. Property in Presidentially-Declared Major Disaster Area
8. 203(k) Rehabilitation Mortgage Program
9. HECM Repair Set-Aside
10. HECM Certifications and Determinations
11. Other Servicer Responsibility or Obligation

Causes

- **A.** Incomplete or insufficient servicing records and/or audit trail
- **B.** Servicing activity not completed as required
- **C.** Unallowable, prohibited, or improperly assessed fees/penalties/charges
- **D.** Mortgage record change or update not reported to FHA as required
- **E.** Violation of program or product-specific requirement
- **F.** Evidence of fraud or misrepresentation

Defect Area 1 (continued)
Servicer Operations (SO)

Severity Tiers	
Unacceptable	
1	Evidence of fraudulent or materially misrepresented information about which the **Servicer knew or should have known**.
2	***Forward*** • Required documentation is missing or incomplete, and FHA is unable to determine compliance with servicing requirements as a result. • Failure to report servicing transfer or mortgage sale to FHA as required. • Mortgage assumption was improperly processed or reported and/or completed without credit qualifying per program requirements. • Required servicing activities or property inspections for escrowed repairs or rehabilitation were not completed in accordance with HUD program requirements. • Failure to obtain HUD approval for a partial release or modification of security that impacts the Property Value. ***HECM*** • FHA inspection was not conducted to document completion of repairs required after closing (Set-Aside) or after hazard insurance claim. • Required repairs were not completed and delays were not supported in accordance with HUD policy. • Required servicing activities related to death notices or occupancy certifications were not completed in accordance with HUD policy.
Deficient	
3	• Required documentation is missing or incomplete, but FHA is able to determine compliance based on other information contained in the Servicing File. • Servicing was not conducted in accordance with specific FHA requirements, but defects are inconsequential and do not require loan-level corrective action. • Inaccurate/erroneous data is revealed in the Servicing File or reported to FHA, but errors are inconsequential. • Apparent defects are present with respect to HUD policy, but the actions were required to comply with other federal or state law.
4	Evidence of fraudulent or materially misrepresented information about which the **Servicer did not know and could not have known**.

Defect Area 1 (continued)
Servicer Operations (SO)

Severity Tiers	
	Remedies
1	Life-of-Loan Indemnification
2	***Forward*** • Correct any reporting issues and provide documentation showing Borrower was notified of any changes in writing. • FHA will accept a 5-Year indemnification agreement for unqualified mortgage assumptions that otherwise meet HUD eligibility requirements. • FHA will accept documentation showing a principal reduction for Findings related to incomplete property repairs or rehabilitation. o If the Property does not meet HUD's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS), FHA will request a principal reduction made **before, and in addition to,** Life-of-Loan indemnification. • 1-Year indemnification is used for general servicing violations that cannot otherwise be addressed with mitigating documentation or corrective action at the loan level. ***HECM*** • Document the completion of repairs to bring the Property into compliance with HUD's MPR and MPS. • For HECM violations, Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action.

Defect Area 2

Account Administration (AA)

Standards and procedures specific to the accounting and administrative functions in connection with the servicing of performing FHA-insured Single Family Mortgages, including various routine activities and related reporting, disclosures, and documentation requirements.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Rehabilitation Escrow Account Payment Administration Servicing Fees and Charges Escrow Insurance Coverage Administration Mortgage Insurance Premium Remittance Mortgage Insurance Premium Cancellation Mortgage Insurance Termination Adjustable Rate Mortgages	Borrower Disbursements Payment Administration Servicing Fees and Charges Interest Rate Changes for Adjustable Rate HECMs Set-Asides Allowable Fees and Charges Prepayment Insurance Coverage Administration Mortgage Insurance Premium Remittance Mortgage Insurance Termination

Sources

1. Payment Administration
2. Prepayment
3. Costs, Fees, and Charges
4. Escrow Management and Property Charge Disbursements
5. Annual Escrow Analysis
6. Adjustable Rate Mortgage (ARM) Annual Review
7. Insurance Coverage Administration
8. Mortgage Insurance Premium (MIP) Remittance
9. Mortgage Payoff
10. Cancellation or Termination of Mortgage Insurance
11. HECM Life Expectancy Set-Aside (LESA) Administration
12. HECM Disbursements, Account Analysis, or Repair Set-Aside
13. HECM Payment Plan Changes

Causes

- **A.** Incomplete or insufficient servicing records and/or audit trail
- **B.** Servicing activity not completed as required
- **C.** Calculation errors or unallowable/prohibited fees/penalties/charges
- **D.** Account status not reported to FHA as required
- **E.** Violation of program or product-specific requirement
- **F.** Evidence of fraud or misrepresentation

Defect Area 2 (continued)
Account Administration (AA)

Severity Tiers	
	Unacceptable
1	Evidence of fraudulent or materially misrepresented information about which the **Servicer knew or should have known**.
2	***Forward*** • Full payments were not applied correctly or prepayments were not applied as requested by the Borrower. • Annual escrow analysis was not performed or escrow amounts were inaccurately calculated resulting in a shortage. • Escrow funds were not disbursed on a timely basis and fees/penalties/charges were improperly deducted from the Borrower's escrow account or otherwise charged to the Borrower as a result. • Unallowable or prohibited Late Charges, attorney's fees, or other fees/penalties/charges were improperly collected and/or charged to the Borrower's account. • Failure to obtain the Borrower's consent to terminate mortgage insurance. • Failure to timely cancel or terminate MIPs. ***HECM*** • Failures or inaccuracies related to HECM account administration, including payments, Disbursements, and Repair Set-Aside or surplus. • LESA improperly administered resulting in unpaid Property Charges, late fees, or penalties assessed to the Borrower, account analysis, payments or Disbursements, and MIPs. • Noncompliance with rules and requirements related to payment of force-placed insurance premiums.
	Deficient
3	• Servicing record, individual account information, or reporting data is missing, but FHA is able to determine compliance based on other information contained in the Servicing File. • Individual accounting or administrative activity was not conducted in accordance with specific FHA requirements, but defects are inconsequential and do not require loan-level corrective action. • Inaccurate/erroneous data is revealed in the Servicing File or reported to FHA, but errors are inconsequential. • Apparent defects are present with respect to HUD policy, but the actions were required to comply with other federal or state law.
4	Evidence of fraudulent or materially misrepresented information about which the **Servicer did not know and could not have known**.

Defect Area 2 (continued)
Account Administration (AA)

Severity Tiers	
	Remedies
1	Life-of-Loan Indemnification
2	***Forward*** • Reverse or refund any unallowable or prohibited fees/penalties/charges. • Reverse or refund any fees/penalties/charges resulting from improperly applied payments, ARM adjustments, and/or late escrow disbursements. o If payments are reduced as a result of ARM adjustment, refund the excess payments with interest on the excess at the index rate from the date of payment to the date of refund. AND • Provide documentation showing the Borrower was notified of any account adjustments in writing. ***HECM*** • Refund the Borrower the amount of surplus Repair Set-Aside or add the amount to the Borrower's Principal Limit. • For HECM violations, Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action.

Defect Area 3

Delinquent and Default Servicing (DS)

Standards and procedures applicable to the servicing of non-performing FHA-insured Single Family Mortgages, including the Servicer's responsibility for records management, accounting, and administrative functions, required actions, and various processing functions in the course of delinquent and default mortgage servicing.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
203(k) Rehabilitation Mortgage Insurance Program – Servicing Mortgages in Delinquency or Default Reporting to Consumer Reporting Agencies and the IRS Late Charges Partial Payments for Mortgages in Default Lien Status Imminent Default Early Default Intervention Presidentially-Declared Major Disaster Areas Reinstatement Programs and Products	Use of Counseling Agencies Due and Payable Servicing Defaults for Unpaid Property Charges COVID-19 HECM Property Charge Repayment Plan

Sources	***Causes***
1. Delinquency or Default Status **2.** Partial Payments or Suspense Account **3.** Late Charges and Fees **4.** Collection Notices and Communications **5.** Early Default Intervention **6.** Non-Monetary Default **7.** Imminent Default **8.** Bankruptcy **9.** Mortgage Reinstatement **10.** Delinquent 203(k) Mortgages **11.** Property Occupancy Status or Condition **12.** HECM Default **13.** HECM Deferral Period **14.** Other Delinquent and Default Servicing Requirement	**A.** Incomplete or insufficient servicing records and/or audit trail **B.** Servicing activity not completed as required **C.** FHA delinquency and default reporting inaccurate, incomplete, or contrary to policy **D.** Requirements related to property inspections, repairs, or preservation not met **E.** Violation of program or product-specific requirement **F.** Evidence of fraud or misrepresentation

Defect Area 3 (continued)
Delinquent and Default Servicing (DS)

Severity Tiers	
	Unacceptable
1	Evidence of fraudulent or materially misrepresented information about which the **Servicer knew or should have known**.
2	***Forward*** • Failure to notify each Borrower, co-signer, and any other party requiring notice by state law that the Mortgage is in Default. • Failure to satisfy other HUD requirements to communicate with Borrowers in Default. • Failure to ensure the accuracy of all information reported to consumer reporting agencies. • Partial Payments were returned to the Borrower without meeting the criteria for returning payments and/or suspense funds equal to at least one full monthly installment were not applied according to HUD policy. • Unallowable Late Charges, attorney's fees, inspection fees, or other fees or penalties were assessed and/or charged to the Borrower's suspense account. • Escrow funds were not disbursed on a timely basis and fees or penalties were charged to the Borrower's suspense account as a result. • Failure to obtain required property inspections to adequately determine occupancy and/or property condition. • Failure to perform required Property Preservation and Protection actions. ***HECM*** • Noncompliance with HECM-specific requirements including Due and Payable policies, Deferral Period, and cure policies.
	Deficient
3	• Required documentation is missing, but FHA is able to determine delinquent and default servicing compliance based on other information contained in the Servicing File. • Delinquent and default servicing was not conducted in accordance with specific FHA requirements, but defects are inconsequential and do not require loan-level corrective action. • Partial Payments were returned to the Borrower without a letter of explanation, but the Servicing File demonstrates the criteria were met for returning the payments. • Inaccurate/erroneous data is revealed in the Servicing File or reported to FHA, but errors are inconsequential. • Apparent defects are present with respect to HUD policy, but the actions were required to comply with other federal or state law.
4	Evidence of fraudulent or materially misrepresented information about which the **Servicer did not know and could not have known**.

Defect Area 3 (continued)
Delinquent and Default Servicing (DS)

Severity Tiers	
	Remedies
1	Life-of-Loan Indemnification
2	***Forward*** • Correct accounting issues and provide documentation showing the Borrower was notified of errors or account adjustments in writing. • Refund the Borrower's account any late fees, penalties, or other charges paid or accrued from the month in which the violation initially occurred. • For Property Preservation and Protection violations resulting from servicing failures, complete all required repairs and designate related costs as non-recoverable to prevent inclusion in any future HUD claims. o Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action. ***HECM*** • For HECM violations, Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action.

Defect Area 4

Loss Mitigation Processing (LP)

Standards and procedures applicable for loss mitigation processing, review activities, required reporting, communications, and financial evaluation for all available loss mitigation alternatives to foreclosure.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Loss Mitigation Program Loss Mitigation Home Retention Options Loss Mitigation Incentives and Title Reimbursement Presidentially-Declared Major Disaster Areas Programs and Products	Defaults for Unpaid Property Charges COVID-19 HECM Property Charge Repayment Plan

Sources

1. Review Processing
2. Borrower Eligibility
3. Financial Evaluation
4. Escrow Analysis, Shortages, or Advances
5. Trial Payment Plan (TPP)
6. Communications and Notices
7. Bankruptcy
8. Loss Mitigation Agreements
9. Loss Mitigation Incentives
10. Other Loss Mitigation Requirement

Causes

- **A.** Incomplete or insufficient servicing records and/or audit trail
- **B.** Loss mitigation activity not completed as required
- **C.** Calculation errors or unallowable/prohibited fees/penalties/charges
- **D.** Loss mitigation reporting inaccurate, incomplete, or contrary to policy
- **E.** Violation of program or product-specific requirement
- **F.** Evidence of fraud or misrepresentation

Defect Area 4 (continued)
Loss Mitigation Processing (LP)

Severity Tiers	
Unacceptable	
1	Evidence of fraudulent or materially misrepresented information about which the **Servicer knew or should have known**.
2	***Forward*** • Loss mitigation activities were not conducted within HUD-specified time frames. • Failure to follow the Loss Mitigation Option Priority Waterfall. • Failure to fully document all required information obtained through communication with the Borrower and the loan was not reviewed for loss mitigation as a result. • Borrower's request for loss mitigation was improperly processed and was not reviewed as required. • Financial evaluation is not supported by documentation in the Servicing File, or Servicer calculation errors result in improper review for Loss Mitigation Options. ***HECM*** • HECM loss mitigation Repayment Plan review activities were not completed in accordance with HUD program requirements.
Deficient	
3	• Loss mitigation was not processed in accordance with specific FHA requirements and/or loss mitigation notifications did not include all required elements, but defects are inconsequential and do not require loan-level corrective action. • Required financial documents are missing, but FHA is able to determine loss mitigation compliance based on other information contained in the Servicing File. • Inaccurate/erroneous data is revealed in the Servicing File or reported to FHA, but errors are inconsequential. • Apparent defects are present with respect to HUD policy, but the actions were required to comply with other federal or state law.
4	Evidence of fraudulent or materially misrepresented information about which the **Servicer did not know and could not have known**.

Defect Area 4 (continued)
Loss Mitigation Processing (LP)

Severity Tiers	
	Remedies
1	Life-of-Loan Indemnification
2	***Forward*** • Notify the Borrower of the servicing error. • Complete the Loss Mitigation Option that puts the Borrower in the position they would have been in absent the violation. o If the appropriate Loss Mitigation Option is unavailable or insufficient, complete a comparable alternative. • FHA will accept indemnification (1-Year or 5-Year) only when the Servicer provides documentation of a good faith effort to complete the remedies above but is unsuccessful due to circumstances beyond the Servicer's control. AND • Remit the amount of any loss mitigation incentives to HUD. • Refund the Borrower's account any late fees paid or accrued from the month in which the loss mitigation failure initially occurred. • Correct any credit reporting negatively impacted by the failure. ***HECM*** • For HECM violations, Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action.

Defect Area 5

Home Retention (HR)

Compliance with standards and requirements for various Home Retention Options from processing through completion of related servicing activities. Minimum property acceptability and eligibility standards for FHA insurance, including program and product-specific variations.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Loss Mitigation Home Retention Options Presidentially-Declared Major Disaster Areas Programs and Products	Defaults for Unpaid Property Charges COVID-19 HECM Property Charge Repayment Plan

Sources

1. Postponement of Servicemember Payments
2. Forbearance Plan
3. Standalone Loan Modification
4. Standalone Partial Claim
5. Combination Loan Modification and Partial Claim
6. Payment Supplement
7. HECM Repayment Plan
8. Borrowers in Foreclosure
9. Other Home Retention Option

Causes

- **A.** Incomplete or insufficient servicing records and/or audit trail
- **B.** Servicing activity not completed as required
- **C.** Home Retention Option did not reinstate the loan
- **D.** Home Retention Option standards/requirements not met
- **E.** Presidentially-Declared Disaster/emergency program requirements not met
- **F.** Evidence of fraud or misrepresentation

Defect Area 5 (continued)
Home Retention (HR)

Severity Tiers	
	Unacceptable
1	Evidence of fraudulent or materially misrepresented information about which the **Servicer knew or should have known**.
2	***Forward*** • Servicing File does not support Borrower eligibility for the Home Retention Option received. • Improperly paid Partial Claim as the result of policy violations, calculation errors, impermissible or unsupported charges, fees, or amounts and/or process timing issues. • Unallowable or improperly calculated amount included in total outstanding debt to be resolved or capitalized. • Borrower was ineligible for the Home Retention Option received. • Improperly completed FHA-HAMP Loss Mitigation Option after TPP failure. • Failure to ensure first lien position through the completion of a Loan Modification. ***HECM*** • Improperly completed HECM Loss Mitigation Option and property charge default was not cured as a result. • Borrower's ability to support the HECM Repayment Plan is not evident in the Servicing File. • Borrower was ineligible for the HECM Loss Mitigation Option received based on HUD program-specific requirements.
	Deficient
3	• Required documentation is missing, but FHA is able to determine compliance with Home Retention Option requirements based on other information contained in the Servicing File. • Home Retention Option was not processed in accordance with specific FHA requirements, but defects are inconsequential and do not require loan-level corrective action. • Inaccurate/erroneous data is revealed in the Servicing File or reported to FHA, but errors are inconsequential. • Apparent defects are present with respect to HUD policy, but the actions were required to comply with other federal or state law.
4	Evidence of fraudulent or materially misrepresented information about which the **Servicer did not know and could not have known**.

Defect Area 5 (continued)
Home Retention (HR)

Severity Tiers	
	Remedies
1	Life-of-Loan Indemnification
2	***Forward*** • Notify the Borrower of the servicing error. • Complete the Loss Mitigation Option that puts the Borrower in the position they would have been in absent the violation. o If the appropriate Loss Mitigation Option is unavailable or insufficient, complete a comparable alternative. • FHA will accept indemnification (1-Year or 5-Year) only when the Servicer provides documentation of a good faith effort to complete the remedies above but is unsuccessful due to circumstances beyond the Servicer's control. AND • Remit the amount of any loss mitigation incentives to HUD. • Refund the Borrower's account any late fees paid or accrued from the month in which loss mitigation failure initially occurred. • Correct any credit reporting negatively impacted by the failure. *Improperly Paid Partial Claims* • For overpaid Partial Claims, remit the overpayment amount to HUD. • If the Borrower or Property was ineligible for a Partial Claim, remit the entire Partial Claim amount and any incentives to HUD. • If the Partial Claim failed to fully reinstate the loan, adjust the Borrower's account in the amount of the Partial Claim shortage. ***HECM*** • For HECM violations, Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action(s).

Defect Area 6

Home Disposition (HD)

Compliance with standards and requirements for various Home Disposition Options and includes foreclosure processing through property conveyance, claims, and other related matters.

HUD Policy References – Handbook 4000.1	
Forward	**HECM**
Foreclosure of Mortgage during Rehabilitation Period Home Disposition Options Presidentially-Declared Major Disaster Areas Foreclosure Programs and Products	Due and Payable Servicing Initiation of Foreclosure and Reasonable Diligence Time Frames Sale of Property Acquired through Foreclosure or DIL Claims Presidentially-Declared Major Disaster Areas Mortgagee Optional Election Assignment

Sources

1. Pre-Foreclosure Sale (PFS)
2. Deed-in-Lieu (DIL) of Foreclosure
3. Foreclosure Review and Activities
4. Fees and Costs
5. Foreclosure During 203(k) Rehabilitation Period
6. Foreclosure Processing
7. Conveyance and Payment of Claim
8. Claims Without Conveyance of Title (CWCOT)
9. HECM Property Disposition
10. Other Home Disposition Option

Causes

- **A.** Incomplete or insufficient servicing records and/or audit trail
- **B.** Servicing action not completed as required
- **C.** Home Disposition Option improperly executed
- **D.** Eligibility or qualification requirements for Home Disposition Option not met
- **E.** Violation of program or product-specific requirement
- **F.** Evidence of fraud or misrepresentation

Defect Area 6 (continued)
Home Disposition (HD)

Severity Tiers	
	Unacceptable
1	Evidence of fraudulent or materially misrepresented information about which the **Servicer knew or should have known**.
2	***Forward*** • Unable to determine compliance with Home Disposition Option requirements due to missing/incomplete documentation. • HUD-approved extension or variance was not obtained as required and servicing records do not indicate a permissible reason or supporting documentation for exceeding HUD-specified time frames. • Foreclosure alternatives were not exhausted before foreclosure was initiated and/or completed. • Foreclosure was not initiated within HUD's specified time frame and claim was submitted without required curtailment. • Claim was overpaid due to unsupported, unallowable or prohibited fees/penalties/charges, or other miscalculations. • Property is in unacceptable conveyance condition due to Servicer neglect or ineligible for CWCOT due to Surchargeable Damage. • Failure to ensure PFS Arm's Length Transaction requirements were met. • Failure to follow property valuation requirements. ***HECM*** • Noncompliance with HECM disposition requirements including Property sale, assignment, foreclosure, claims, or other cure policies. • Unacceptable property condition due to disrepair, Servicer neglected Property Preservation and Protection, and/or required inspections.
	Deficient
3	• Foreclosure was not initiated within HUD's specified time frame and curtailment will be required at claim submission. • HUD-approved extension or variance was not obtained as required, but the Servicing File contains evidence to support approval if extension or variance had been requested. • Home Disposition Option was not processed in accordance with specific FHA requirements, but defects are inconsequential and do not require loan-level corrective action. • Inaccurate/erroneous data is revealed in the Servicing File or reported to FHA, but errors are inconsequential. • Apparent defects are present with respect to HUD policy, but the actions were required to comply with other federal or state law.
4	Evidence of fraudulent or materially misrepresented information about which the **Servicer did not know and could not have known**.

Defect Area 6 (continued)
Home Disposition (HD)

Severity Tiers	
	Remedies
1	Life-of-Loan Indemnification
2	***Forward*** *Loan Status – Pre-Foreclosure/Foreclosure* • Notify the Borrower of the servicing error. • Complete the Loss Mitigation Option that puts the Borrower in the position they would have been in absent the violation. o If the appropriate Loss Mitigation Option is unavailable or insufficient, complete a comparable alternative. o Foreclosure must be suspended during the loss mitigation process and canceled upon completion of a Loss Mitigation Option. • FHA will accept a 5-Year indemnification only when the Servicer provides documentation of a good faith effort to complete the remedies above but is unsuccessful due to circumstances beyond the Servicer's control. AND • Remit the amount of any incentives to HUD. • Refund the Borrower any improperly assessed fees/penalties/charges. • Correct any credit reporting negatively impacted by the failure. *Loan Status – Conveyance/Claim* • For improperly paid claims, remit any overpaid amount and incentive fee to HUD. • For improperly paid conveyance claims due to incomplete repairs less than $5,000, remit the cost of the repairs to HUD. • Life-of-Loan indemnification is the only available remedy in LRS when documentation in the Servicing File demonstrates the foreclosure should not have been completed, or the Property was ineligible for the Home Disposition Option or claim type received. ***HECM*** • For HECM violations, Life-of-Loan indemnification is the only available remedy in LRS if the Servicer is unable to provide mitigating documentation and/or complete corrective action.

APPENDIX 9.0 – ASSUMED LOAN PERIODS FOR COMPUTATIONS OF TOTAL ANNUAL LOAN COST RATES (04/29/2024)

a) Required tables. In calculating the total annual loan cost rates, creditors shall assume three loan periods, as determined by the following table.

b) Loan periods.

1) Loan Period 1 is a two-year loan period.

2) Loan Period 2 is the life expectancy in years of the youngest Borrower to become obligated on the reverse mortgage loan, as shown in the U.S. Decennial Life Tables for 1979–1981 for females, rounded to the nearest whole year.

3) Loan Period 3 is the life expectancy figure in Loan Period 2, multiplied by 1.4 and rounded to the nearest full year (life expectancy figures at 0.5 have been rounded up to 1).

4) At the creditor's option, an additional period may be included, which is the life expectancy figure in Loan Period 2, multiplied by 0.5 and rounded to the nearest full year (life expectancy figures at 0.5 have been rounded up to 1).

Age of Youngest Borrower	Loan Period 1 (in years)	[Optional Loan Period (in years)]	Loan Period 2 (life expectancy) (in years)	Loan Period 3 (in years)
62	2	[11]	21	29
63	2	[10]	20	28
64	2	[10]	19	27
65	2	[9]	18	25
66	2	[9]	18	25
67	2	[9]	17	24
68	2	[8]	16	22
69	2	[8]	16	22
70	2	[8]	15	21
71	2	[7]	14	20
72	2	[7]	13	18
73	2	[7]	13	18
74	2	[6]	12	17
75	2	[6]	12	17
76	2	[6]	11	15
77	2	[5]	10	14
78	2	[5]	10	14
79	2	[5]	9	13
80	2	[5]	9	13

Age of Youngest Borrower	Loan Period 1 (in years)	[Optional Loan Period (in years)]	Loan Period 2 (life expectancy) (in years)	Loan Period 3 (in years)
81	2	[4]	8	11
82	2	[4]	8	11
83	2	[4]	7	10
84	2	[4]	7	10
85	2	[3]	6	8
86	2	[3]	6	8
87	2	[3]	6	8
88	2	[3]	5	7
89	2	[3]	5	7
90	2	[3]	5	7
91	2	[2]	4	6
92	2	[2]	4	6
93	2	[2]	4	6
94	2	[2]	4	6
95 and over	2	[2]	3	

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