



DECLINING MARKETS:	A reduction in LTV/CLTV is <u>not required</u> for loans in declining markets, but there are additional appraisal requirements. Note: See the appraisal section below for the additional requirements.								
SPECIAL PROGRAM NOTES:	REMINDER: FHA PROGRAM DESCRIPTIONS ARE NOT INTENDED TO REPLACE THE 4155. PLEASE REFER TO THE 4155 FOR GUIDELINES THAT DO NOT APPEAR IN THIS DOCUMENT OR FOR FURTHER CLARIFICATION OF GUIDELINES.								
SECTION 1:	CODING								
PROGRAM CODES:	30-Year Fixed term: 4090-00 5/1 ARM: 4890-00 30-Year Fixed term with DAP: 4095-00 FHA REO High Balance Codes: 30-Year Fixed Term 4028-00								
Second Lien Program Codes:	Not applicable								
SECTION 2:	LTV/CLTV/LOAN AMOUNTS BY DOC TYPE								
FULL DOCUMENTATION: Purchase Only:	<table border="0"> <thead> <tr> <th><u>LTV*</u></th> <th><u>CLTV</u></th> <th><u>OCC.</u></th> <th><u>PROPERTY</u></th> </tr> </thead> <tbody> <tr> <td>96.50%</td> <td>***</td> <td>Owner</td> <td>1-4 Units</td> </tr> </tbody> </table> <p>* The LTV including the upfront MIP may not exceed 100%</p> <ul style="list-style-type: none"> ❖ See the Maximum Loan Amount section below for information on determining the maximum loan amount. ❖ The maximum base loan amount may not exceed the statutory limit for each county/MSA. <p>*** See the Subordinate Financing section below for information on determining the CLTV.</p>	<u>LTV*</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	96.50%	***	Owner	1-4 Units
<u>LTV*</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>						
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Rate term Refinance Only:	<table border="0"> <thead> <tr> <th><u>LTV</u></th> <th><u>CLTV</u></th> <th><u>OCC.</u></th> <th><u>PROPERTY</u></th> </tr> </thead> <tbody> <tr> <td>97.75%</td> <td>100%***</td> <td>Owner</td> <td>1-4 Units</td> </tr> </tbody> </table> <p>*** The maximum CLTV is 100% when <u>existing</u> subordinate liens are placed behind the FHA first lien. Please see subordinate financing section for requirements. <u>New</u> subordinate liens are not permitted behind rate/term refinance first liens.</p> <ul style="list-style-type: none"> ❖ See the Maximum Loan Amount section below for information on determining the maximum loan amount. ❖ The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions. <p>Note: Effective with case numbers issued on and after 11/17/09: Maximum CLTV is 125% for <u>streamline refinance transactions</u> with existing subordinate financing.</p>	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	97.75%	100%***	Owner	1-4 Units
<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>						
97.75%	100%***	Owner	1-4 Units						



Cash-out Refinance: LTV CLTV OCC. PROPERTY
 85% *** Owner 1-2 Units

*** The maximum CLTV with new subordinate financing is 85%. Re-subordinated or modified subordinate liens may remain in place with no limit to CLTV.

- ❖ Note: See the Maximum Loan Amount section below for information on determining the maximum loan amount.
- ❖ **The maximum base loan amount may not exceed the statutory limit for each county/MSA.**

SECTION 3: PROGRAM PARAMETERS

MINIMUM/MAXIMUM LOAN AMOUNT:

For Credit Approvals on and after 1/1/09:

FHA HIGH BALANCE MORTGAGE LIMITS				
Region	1 Unit	2 Units	3 Units	4 Units
Minimum LA 48 States	\$417,001	\$533,851	\$645,301	\$801,951
Maximum LA* 48 States	\$729,750	\$934,200	\$1,129,250	\$1,403,400
Minimum LA Hawaii	\$625,501	\$800,776	\$967,951	\$1,046,546
Maximum LA* Alaska & Hawaii	\$1,094,625	\$1,401,300	\$1,693,875	\$2,105,100

Note: When the base loan amount is \geq the limits above, a price adjustment may be assessed.
 * The maximum loan amount varies by geographic area. To find the maximum loan amount for your property go to: <https://entp.hud.gov/idapp/html/hicostlook.cfm>
Note: A copy of the printout from the HUD site above must be included in the loan file to evidence the property location is eligible for the higher loan amounts.
The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions.

Purchase Transactions:

- **The maximum loan amount for a purchase transaction** is calculated by applying 96.5% to the lesser of either of the appraiser's estimate of value or the contract price of the property minus any adjustments:
 - Purchase Transaction with an Inducement to Purchase:**
 - Sales Price: \$218,000; Appraised Value: \$220,000
 - Gift Card: \$3,000
 - Adjusted Base Sales Price: \$215,000 (\$218,000 - \$3,000)
 - Maximum Base LTV: 96.5% (Reciprocal of 3.5% Down Payment)
 - Maximum Base Mortgage: \$207,475 (\$215,000 X 96.5%)
 - Minimum required down payment: \$10,525 (\$218,000 - \$207,475)
 - UFMIP Factor = 1.75% (note, as of case numbers issued on or after 4/5/10, the UFMIP factor is 2.25%)
 - UFMIP Amount: \$3,630.81 (\$207,475 X .175)
 - Total Mortgage with UFMIP: \$211,105 (\$207,475 + \$3,630.81) may not exceed the lesser of the contract sales price or appraised value.
- **An inducement to purchase** must result in a dollar-for-dollar reduction to the sales price before applying the LTV ratio. These inducements may include, but are not limited to, decorating allowances, repair allowances, moving costs, gift cards, etc. Personal property such as cars, boats, lawn mowers, furniture, televisions, etc. given to by the seller to consummate the sale also must result in a reduction to sales price before applying the LTV ratio.
- **On a purchase transaction**, seller/interested party contributions exceeding 6% must be subtracted from the sales price (or value, if less) before applying the down payment percentage multiplier.

**MAXIMUM LOAN
AMOUNT:
(cont'd)**

- **REO properties with \$100 down payment sales incentive:** Standard purchase calculations (i.e. maximum LTV 96.5%) apply. LTV with UFMIP may not exceed 100%.
- Note: Energy Efficient Mortgages are not permitted under the high balance program.

Rate Term Refinance Transactions:

- **For a rate term refinance the maximum mortgage is the lower of the LTV limitation of 97.75% OR the calculation below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - Multiply the appraised value of the property by 97.75% OR
 - Add together the amount of the existing first lien, any purchase money second, any junior liens >12 months old, closing costs, prepaid expenses, borrower paid repairs required by the appraiser, discount points, then subtract any refund of the upfront MIP.
- **Note: If any portion of the funds from an equity line >\$1,000 was advanced within the last 12 months and was used for any purpose other than repairs and rehabilitation of the property, the line of credit is NOT eligible for inclusion in the new mortgage.**
- **Note: For a rate/term or streamline refinance the costs cannot exceed actual costs. There cannot be cash-back to the borrower except for incidental cash proceeds not to exceed \$500.00.**
- Note: Energy Efficient Mortgages are not permitted under the high balance program.

**For Case Numbers Assigned BEFORE 11/17/09 –
STREAMLINE REFINANCE TRANSACTIONS:**

- **For a streamline refinance WITH an appraisal the maximum mortgage is the lower of the LTV limitation of 97.75% OR the calculation below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - Multiply the appraised value of the property by 97.75% OR
 - Add together the amount of the existing first lien, closing costs, prepaid expenses, discount points, then subtract any refund of the upfront MIP.
- **For a streamline refinance WITHOUT an appraisal (owner occupied properties) the maximum mortgage is the lower of the 2 calculations below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - The original principal balance on the mortgage (which will include any upfront MIP) plus the new upfront MIP that will be charged on the refinance OR
 - Add together the amount of the existing first lien, closing costs, prepaid expenses, discount points, then subtract any refund of the upfront MIP.
- **Note: For a rate/term or streamline refinance the costs cannot exceed actual costs. There cannot be cash-back to the borrower except for incidental cash proceeds not to exceed \$500.00.**
- **Note: For streamline refinances the new loan approval must be dated > 90 days from the recording date of the last transaction.**
- Note: Energy Efficient Mortgages are not permitted under the high balance program.

**For Case Numbers Assigned on and after 11/17/09 –
STREAMLINE REFINANCE TRANSACTIONS:**

- At the time of **application**, the borrower must have made at least 6 payments within the month due on the FHA-insured mortgage being refinanced.
- **For a streamline refinance WITH an appraisal the maximum mortgage is the lower of**
 - ❖ The outstanding principal balance *minus* the applicable refund of the UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP OR
 - ❖ 97.75% of the appraised value of the property plus the new UFMIP.
 - ❖ Discount points may **not** be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify that the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.



<p>MAXIMUM LOAN AMOUNT: (cont'd)</p>	<ul style="list-style-type: none"> • For a streamline refinance WITHOUT an appraisal (owner occupied properties) the maximum mortgage is <ul style="list-style-type: none"> ❖ The outstanding principal balance <i>minus</i> the applicable refund of the UFMIP <i>PLUS</i> ❖ The new UPFMIP that will be charged on the refinance • Note: The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month, but may not include delinquent interest, late charges or escrow shortages. • The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions. • Note: Energy Efficient Mortgages are not permitted under the high balance program. <p><u>Additional Refinance Transaction Notes:</u></p> <ul style="list-style-type: none"> • See the refinance section below for calculating the LTV on a cash-out refinance and for additional information on refinance transactions. ❖ See non-occupant co-borrower section below for the maximum loan amount requirement for transactions with non-occupant co-borrowers. ❖ The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions. 								
<p>ALLOWABLE TERMS:</p>	<p>Thirty year fixed rate term 5/1 ARM (30 year term)</p>								
<p>CASH PROCEEDS:</p>	<p>No restrictions on a cash-out refinance.</p>								
<p>SPECIAL PROGRAM REQUIREMENTS:</p>	<p>Not applicable</p>								
<p>ARM ADJUSTMENTS:</p>	<p>The index is the (CMT), the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year. ARM loans adjust as follows:</p> <table border="0"> <thead> <tr> <th></th> <th><u>Fixed Term</u></th> <th><u>Adjustment</u></th> <th><u>Life Cap</u></th> </tr> </thead> <tbody> <tr> <td>5 Year</td> <td>60 months</td> <td>1%/annual</td> <td>5%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • The loans are not convertible. • The loan may be assumable subject to lender approval. <p>On 5 year ARMs borrowers are qualified at the start rate (note rate) regardless of the LTV</p>		<u>Fixed Term</u>	<u>Adjustment</u>	<u>Life Cap</u>	5 Year	60 months	1%/annual	5%
	<u>Fixed Term</u>	<u>Adjustment</u>	<u>Life Cap</u>						
5 Year	60 months	1%/annual	5%						
<p>INTEREST ONLY OPTION:</p>	<p>Not applicable</p>								
<p>TEMPORARY BUYDOWNS:</p>	<p>Buydowns are not permitted.</p>								
<p>PREPAYMENT PENALTY:</p>	<p>Not applicable.</p>								



SECTION 4:	BORROWER ELIGIBILITY
FIRST TIME HOMEBUYER:	Allowed, no restrictions.
NON-OCCUPANT CO-BORROWER:	<ul style="list-style-type: none"> • Permitted on purchase or rate/term refinance transactions to maximum 75% LTV with the following exception: <ul style="list-style-type: none"> ❖ Maximum financing is permitted if the non-occupant borrower is related by blood (parent-child, siblings, uncle-aunt, etc) OR for unrelated persons that can document evidence of a family-type long-standing and substantial relationship not arising out of the loan transaction. ❖ If the LTV is >75%, only one-unit properties are permitted. • The non-occupant borrower's income may be used for qualifying. • The non-occupant borrower cannot be a party to the transaction such as the seller, builder or real estate broker. • Non-occupant co-borrowers or co-signers may not be added on a cash-out refinance transaction per mortgagee letter 08-40, page 5. Co-signers must occupy the property. • For streamline refinance, the same borrowers should be on existing loan and new loan OR a borrower may be added to those currently on Note without credit qualifying. If deleting a borrower with another existing borrower remaining on new loan, remaining borrower must credit qualify.
PERMANENT RESIDENT ALIEN:	<ul style="list-style-type: none"> • Allowed under the same terms as US citizens. • Permanent resident aliens must provide proof of their residency (i.e. green card).
NON-PERMANENT RESIDENT ALIEN:	<ul style="list-style-type: none"> • Non-permanent resident aliens are permitted provide they occupy the property as their primary residence, have a valid social security number AND are eligible to work in the US. • A legible copy of one of the following acceptable visa types must be submitted in the file: E-1, H-1B, H-2A, H-2B, H-3, L-1, G series, and NAFTA workers (TN or TC). • The following are not acceptable visa types: A-1, A-2, A-3, E-2, F-1, F-2, M-1, O-1. • For any visa types not listed above, please contact your branch to research acceptability, all visa types may not be listed here. • A legible copy of the unexpired passport with I-94 is also required. • Borrowers with diplomatic immunity are not permitted.
FOREIGN NATIONAL:	Not eligible
NON-ARMS LENGTH TRANSACTIONS:	<ul style="list-style-type: none"> • A non-arms length transaction is defined as a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, broker, appraiser, etc. • Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, and the appraisal supports the value and the appraiser comments on whether the market value is affected by the relationship of the parties. • The maximum LTV is 85% unless the property has been occupied by the seller as their primary residence OR the buyer has occupied the property as a tenant for at least 6 months. • A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage. <ul style="list-style-type: none"> • The title commitment may not show any evidence of foreclosure proceedings or NOD. • If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.
NUMBER OF OTHER PROPERTIES:	<p><u>Number of financed properties Stearns permits:</u></p> <ul style="list-style-type: none"> • For Owner Occupied properties, there is no limit to the number of financed properties that the borrower may own. <ul style="list-style-type: none"> • Reminder: HUD has rules regarding ownership in more than 7 rental units - please consult the 4155 if your borrower owns multiple rental units • Borrowers cannot have acquired any properties (including owner occupied, second home or non-owner) in the last 90 days AND no more than 2 non-owner occupied properties in the last 12 months (can be measured from acquisition date to the closing date of the subject transaction).

<p>NUMBER OF OTHER PROPERTIES: (cont'd)</p>	<p>Number of properties HUD will insure:</p> <ul style="list-style-type: none"> • HUD will generally not insure more than one property per borrower. Any person, individually or jointly owning a property insured by HUD, may not purchase another primary residence with FHA mortgage insurance unless one of the following occurs: <ul style="list-style-type: none"> ❖ The borrower is relocating and establishing residency in another area not with in a reasonable commuting distance from their current primary residence. (Generally 50 miles is considered reasonable) ❖ The borrower outgrows their present property because of an increase in family size. The borrower also must pay down the outstanding FHA mortgage (secondary liens do not need to be paid off or paid down) on the present property to a 75 percent or lower loan-to-value (LTV) ratio. A current residential appraisal must be used to determine LTV compliance. Tax assessments, market analyses by real estate brokers, etc., are not acceptable as proof of LTV compliance. ❖ The borrower vacates a property that will remain occupied by a co-borrower. (i.e. divorce). ❖ A non-occupying co-borrower of an FHA mortgage being purchased as a primary residence may have a joint interest in that property as well as a primary residence covered by the FHA loan. ❖ Note: properties previously acquired as non-owner are not subject to the restrictions above. ❖ Reminder: HUD has rules regarding ownership in more than 7 rental units - please consult the 4155 if your borrower owns multiple rental units <p>Note: The more restrictive of Stearns Policy or HUD policy must be adhered to.</p>
<p>SECTION 5: UNDERWRITING:</p>	<p>CREDIT CRITERIA</p> <ul style="list-style-type: none"> • All loans must be underwritten by DU or LP and receive approve/ eligible or accept recommendation. No Exceptions on High Balance. • Loans underwritten through DU/FHA Total Scorecard that receive an “approve/eligible” recommendation may be documented per the AU findings report. • AUS Approve/Eligible transactions where a manual downgrade is required per Total Scorecard User Guide should follow HUD guidelines. • Manual underwriting is not permitted, no exceptions. • DTI maximum 50% regardless of AUS recommendation. • Case number assignments must show clear and validated with no warnings or sanctions.
<p>CREDIT SCORES:</p>	<p>STREAMLINE REFINANCES: An AUS should not be used on streamline refinance transactions. If an AUS is used, the loan must be underwritten as a rate/term fully qualified refinance transaction.</p> <ul style="list-style-type: none"> • A 3 bureau merged in-file report or full credit report (RMCR) must be obtained that contains at least 2, but preferably 3 credit scores for each borrower. • A “representative score” (lower of 2, middle of 3) will be chosen for each borrower on the loan. • Every borrower on the loan must have a credit score. • A minimum 620 credit score is required for all borrowers, regardless of AUS approval. This applies to all purchases and rate/term refinances. • A minimum 640 credit score is required for each and every borrower on all Streamline Refinance transactions regardless of case number issuance. • Cash-out refinances require a minimum 660 credit score regardless of AUS. • Streamline refinances without a credit score are not permitted. • Credit scores must be entered into FHA Connection. If multiple scores exist, all scores must be entered.
<p>CREDIT REQUIREMENTS:</p>	<ul style="list-style-type: none"> • Traditional credit histories are required. • If required by AUS findings, the borrowers housing history must be documented for the last 12 months on a credit report, OR with a verification of rent directly from the landlord, OR with 12 months canceled checks, OR a verification of mortgage from the loan servicer. • The borrower’s mortgage history must reflect 0x30 in the last 12 months and must be documented as current for the month due, regardless of AUS. • Major derogatory credit (i.e. judgments, collections, etc.) requires a written explanation. • Inquiries on the credit report for the last 90 days must be explained in writing.

**CREDIT
REQUIREMENTS:
(cont'd)**

- Court ordered judgments must be paid off before a borrower will be eligible for an FHA loan unless the borrower has agreed to a payment plan with the creditor and has been making timely payments per the payment plan.
- Mortgage foreclosures, bankruptcy & short sale resulting in an AUS Refer will not be permitted on the High Balance program.
- Short payoffs or settlements on a mortgage lien are considered the same as a foreclosure. Short payoffs and settlements on a mortgage lien on the credit report will NOT be eligible for FHA financing.
- Consumer credit counseling is not permitted.
- If the borrower is currently delinquent on any federal debt (i.e. VA loan, title 1 loan, federal student loan, Small Business Administration loan, delinquent federal taxes) or has a lien placed against their property for a debt owed to the Federal government, they are not eligible for FHA insurance until the delinquent account is brought current, paid or otherwise satisfied.
- Non purchasing spouse credit reminder: A credit report is required on a non-purchasing spouse in a community property state. Although the non-purchasing spouse's credit history is not to be considered a reason for denial, it must be obtained in order to determine the debt-to-income ratio of the borrower.

Loan modifications:

- Refinance transactions on previously modified loans are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being sold should be treated with caution and reviewed for delinquencies and short payoffs.

QUALIFYING:

- **On the 5/1 ARM** the borrower is qualified based on the start rate (note rate).
- **Child support/alimony** payments are included in the DTI regardless of the number of payments remaining.
- **Installment debt with <10 payments remaining** are not included in the DTI unless the payment amount is substantial enough to affect the borrowers DTI ratio. HUD considers payments >\$100.00 to be substantial.
- Loans secured by a liquid asset (i.e. 401K) are not included in the debt calculation.
- **Deferred student loans will be included** in the DTI unless the borrower can prove that payments will not start for at least 12 months after closing.
- **Paying revolving debt** off to qualify is permitted provided the borrower has the funds in verified assets to pay the account(s) and the payoff is documented (HUD-1).
- **Lease payments** will be included in the DTI regardless of the number of payments remaining in the lease.
- **Co-signed obligations** will not be included in the DTI if there is evidence the primary borrower has made payments as agreed for the last 12 months (copies of canceled checks, front and back). A copy of the note must also be provided to show that the person making the payments is also an obligor on the note. Being placed on title only is not sufficient.
- **Contingent liabilities** (i.e. property settlement "buy-outs" or court-ordered assignment of debt) will not be included in the DTI if there is proof the debt belongs to another person. A copy of a court order, divorce decree or property settlement may provide proof of the contingent debt.
- Payments on **bridge loans** will not be included in the debt ratio.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.

Primary Residence being vacated in favor of another principal residence:

- **Beginning with case number assignments on or after September 19, 2008, and until further notice, the underwriting analysis may not consider any rental income from the property being vacated except under circumstances described below.**
- **Exceptions:** Rental income on the property being vacated, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see <http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm>) may be considered in the underwriting analysis under the following circumstances.

**QUALIFYING:
(cont'd)**

- **Relocations:** The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of a least one year's duration after the loan is closed is required. FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.
- **Sufficient Equity in Vacated Property:** The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.

RATIOS:

- **DTI maximum 50% regardless of AUS recommendation.**

**CALCULATING
LTV/CLTV/VALUE:**

Purchase Transactions:

- **The maximum loan amount for a purchase transaction** is calculated by applying 96.5% to the lesser of either of the appraiser's estimate of value or the contract price of the property minus any adjustments:
 - **Purchase Transaction with an Inducement to Purchase:**
Sales Price: \$218,000; Appraised Value: \$220,000
Gift Card: \$3,000
Adjusted Base Sales Price: \$215,000 (\$218,000 - \$3,000)
Maximum Base LTV: 96.5% (Reciprocal of 3.5% Down Payment)
Maximum Base Mortgage: \$207,475 (\$215,000 X 96.5%)
Minimum required down payment: \$10,525 (\$218,000 - \$207,475)
UFMIP Factor = 1.75% (note, as of case numbers issued on or after 4/5/10, the UFMIP factor is 2.25%)
UFMIP Amount: \$3,630.81 (\$207,475 X .175)
Total Mortgage with UFMIP: \$211,105 (\$207,475 + \$3,630.81) may not exceed the lesser of the contract sales price or appraised value.
 - **An inducement to purchase** must result in a dollar-for-dollar reduction to the sales price before applying the LTV ratio. These inducements may include, but are not limited to, decorating allowances, repair allowances, moving costs, gift cards, etc. Personal property such as cars, boats, lawn mowers, furniture, televisions, etc. given to by the seller to consummate the sale also must result in a reduction to sales price before applying the LTV ratio.
 - **On a purchase transaction**, seller/interested party contributions exceeding 6% must be subtracted from the sales price (or value, if less) before applying the down payment percentage multiplier.
 - **REO properties with \$100 down payment sales incentive:** Standard purchase calculations (i.e. maximum LTV 96.5%) apply. LTV with UFMIP may not exceed 100%.
 - **Re-negotiated purchase agreement policy:**
 - Stearns will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
 - The appraised value is higher than the contracted sales price provided to the appraiser, and
 - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
 - The only change to the purchase agreement is an increase in sales price.
 - If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
 - A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
 - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

**CALCULATING
LTV/CLTV/VALUE:
(cont'd)**

Rate Term Refinance Transactions:

- **For a rate term refinance the maximum mortgage is the lower of the LTV limitation of 97.75% OR the calculation below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - Multiply the appraised value of the property by 97.75% OR
 - Add together the amount of the existing first lien, any purchase money second, any junior liens >12 months old, closing costs, prepaid expenses, borrower paid repairs required by the appraiser, discount points, then subtract any refund of the upfront MIP.
 - **If the property was acquired less than one year before the loan application and is not already FHA-insured**, in addition to the calculations described above, the original sales price of the property also must be considered in determining the maximum mortgage. With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price in calculating the mortgage amount.]
- **Note: If any portion of the funds from an equity line >\$1,000 was advanced within the last 12 months and was used for any purpose other than repairs and rehabilitation of the property, the line of credit is NOT eligible for inclusion in the new mortgage.**

**For Case Numbers Assigned BEFORE 11/17/09 –
STREAMLINE REFINANCE TRANSACTIONS:**

- **For a streamline refinance WITH an appraisal the maximum mortgage is the lower of the LTV limitation of 97.75% OR the calculation below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - Multiply the appraised value of the property by 97.75% OR
 - Add together the amount of the existing first lien, closing costs, prepaid expenses, discount points, then subtract any refund of the upfront MIP.
- **For a streamline refinance WITHOUT an appraisal (owner occupied properties) the maximum mortgage is the lower of the 2 calculations below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - The original principal balance on the mortgage (which will include any upfront MIP) plus the new upfront MIP that will be charged on the refinance OR
 - Add together the amount of the existing first lien, closing costs, prepaid expenses, discount points, then subtract any refund of the upfront MIP.
- **Properties no longer occupied by the borrower or properties that are non-owner are only permitted on streamline refinances without an appraisal AND only for the outstanding principal balance. ALL CLOSING COSTS MUST BE PAID IN CASH.**
- **The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions.**

**For Case Numbers Assigned on and after 11/17/09 –
STREAMLINE REFINANCE TRANSACTIONS:**

- At the time of **application**, the borrower must have made at least 6 payments within the month due on the FHA-insured mortgage being refinanced.
- **For a streamline refinance WITH an appraisal the maximum mortgage is the lower of**
 - ❖ The outstanding principal balance *minus* the applicable refund of the UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP
 - OR
 - ❖ 97.75% of the appraised value of the property plus the new UFMIP.
 - ❖ Discount points may **not** be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify that the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.
- **For a streamline refinance WITHOUT an appraisal (owner occupied properties) the maximum mortgage is**
 - ❖ The outstanding principal balance *minus* the applicable refund of the UFMIP
PLUS
 - ❖ The new UFMIP that will be charged on the refinance

**CALCULATING
LTV/CLTV/VALUE:
(cont'd)**

- **Note:** The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month, but may **not** include delinquent interest, late charges or escrow shortages.
- Existing subordinate financing may remain in place to a maximum of **125% CLTV** if the borrower has an acceptable payment history on all liens.
 - For streamline refinances **without** an appraisal, the CLTV is based on the original appraised value of the property.
 - For streamline refinances **with** an appraisal, the CLTV is based on the new appraised value.
- **The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions.**

Cash Out Refinance Transactions:

Cash-out refinance on a property owned <12 months:

- The maximum loan amount is based on the lesser of the following:
 - ❖ 85% of the appraised value OR
 - ❖ 85% of the original sales price.

Cash-out refinance on a property owned ≥12 months:

- ❖ The maximum LTV is 85% of the appraised value.

NOTES:

- ❖ **Borrowers who are delinquent or in arrears on their current mortgage are not eligible.**
- ❖ **Existing subordinate financing may remain in place if it is subordinated to the new first lien.**
- ❖ **Properties owned free & clear may be financed as cash out refinance transactions.**
- ❖ **Non-occupant co-borrowers or co-signers may not be added on a cash-out refinance transaction per mortgagee letter 08-40, page 5. Co-signers must occupy the property.**
- ❖ **The maximum base loan amount may not exceed the statutory limit for each county/MSA.**

SEASONING:

- Properties are not eligible for mortgage insurance if the resale date is ≤90 days following acquisition by the seller. (unless the seller is exempt) See eligible property section below for additional information.
- Loans with resale dates >90 days up to 12 months may require supplemental documentation, including an additional appraisal.
- **For any sale where the seller has owned the property from 91 to 180 days and the new sales price is 100% or higher than the seller acquisition cost, a second appraisal is required to confirm the value (refer to ML 2006-14). This 2nd appraisal fee can not be charged to the borrower.**
- Cash out refinance transactions require 6 months seasoning, measured from note date/closing date to application date. In addition, all borrowers on the new loan must be on title for at least 6 months

For Case Numbers Assigned on and after 11/17/09 –

STREAMLINE REFINANCE TRANSACTIONS:

- At the time of **application**, the borrower must have made at least 6 payments within the month due on the FHA-insured mortgage being refinanced.

REFINANCES:

Continuity of obligation:

- There is no seasoning requirement for rate & term refinances
- In order to be eligible for a rate & term refinance, borrower must hold legal title to the property; they do not have to be on the existing lien.
- However, if the borrower has owned the property for less than 12 months, and the loan is not already FHA-insured, then the new loan amount is based on the lower of appraised value or borrower's acquisition cost (see the sections regarding calculating the loan amount)
- For streamline refinance, the same borrowers should be on existing loan and new loan OR a borrower may be added to those currently on Note without credit qualifying. If deleting a borrower with another existing borrower remaining on new loan, remaining borrower must credit qualify.

**REFINANCES:
(cont'd)**

- Cash out refinance transactions require 6 months seasoning, measured from note date/closing date to application date. In addition, all borrowers on the new loan must be on title for at least 6 months.

A rate/term refinance may include:

- Paying off the outstanding balance of the existing first mortgage, including any prepayment penalty.
- Paying off any subordinate lien used solely for the acquisition (purchase) of the property.
- Financing of closing costs, including pre-paid items, borrower paid repairs required by the appraisal, and any reasonable discount points.
- Incidental cash back to the borrower not to exceed \$500.00.
- Any junior liens that have been seasoned for a minimum of 12 months.
- Pre-paid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposit, monthly mortgage insurance premiums and real estate tax deposits needed to establish the escrow account regardless of whether the mortgagee refinancing the existing loan is also the servicing lender for the loan.
- The amount of the existing first lien may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typical for FHA mortgages). They amount also may include any prepayment penalties assessed on a conventional mortgage.
- The mortgage being refinanced must be documented as current for the month due. (i.e. A refinance of a loan anytime in November must have the October payment made.)
- Subordinate liens, including credit lines, regardless of when taken out, may remain outstanding, but must be subordinated to the new mortgage. The maximum CLTV is 100%. The borrower must have 12 months history with 0x30 lates.
- **New** subordinate liens are not permitted.
- The transaction must benefit the borrower.
- **NOTE: (if any portion of the funds of an equity line of credit in excess of \$1,000 was advanced within the past twelve months and was for purposes other than repairs and rehabilitation of the property, the line of credit is NOT eligible for inclusion in the new mortgage.)**

Streamline Refinances – General guidance:

- **Minimum 640 credit score required on streamline refinances. Credit report is required to validate credit score.**
- An AUS should **not** be used on streamline refinance transactions. If an AUS is used, the loan must be underwritten as a rate/term fully qualified refinance transaction.
- Generally documentation of income, assets, credit or appraisal is not required, but in some cases a may be necessary.
- The mortgage being refinanced must be documented as current for the month due. (i.e. A refinance anytime in November must have the October payment made.)
- A mortgage rating, a credit supplement, or current payment history on the mortgage is required and must show no more than 0X30 day mortgage lates in the past 12 months.
- Streamline refinances are used to lower the monthly P & I payments on an existing first lien. Cash back to the borrower may not exceed \$500.00.
- Stearns requires verbal VOE for all borrowers at time of funding to confirm borrowers are employed only. 1003 should include employer name, address, and phone #.
- Loans closed on or after April 24, 1992, are exempt from the .50% annual premium of the mortgage provided the loan being refinanced closed prior to July 1, 1991. The file must contain evidence the loan closed prior to the July date. Acceptable evidence is a copy of the note, HUD-1, MIC, recorded deed, etc.
- For streamline refinances on Nevada properties, a “Commercially Reasonable Means or Mechanism Worksheet” must be completed and retained in the file. The form is located in the J://Operational Tools/Underwriting/Tangible Net Benefit Worksheets folder.
- **Properties no longer occupied by the borrower or properties that are non-owner are only permitted on streamline refinances without an appraisal AND only for the outstanding principal balance. ALL CLOSING COSTS MUST BE PAID IN CASH including any costs shown on the current payoff demand.**

REFINANCES:
(cont'd)

**For Case Numbers Assigned BEFORE 11/17/09 –
STREAMLINE REFINANCE TRANSACTIONS:**

- Streamline refinances must result in an immediate payment reduction for the borrower.
 - ❖ If the transaction is for a fixed rate to fixed rate, a minimum \$50.00 reduction in payment is required. Note, fixed rate to hybrid ARM (3/1 & 5/1) must meet this payment reduction.
 - ❖ If the transaction is for an ARM to fixed rate, the new fixed interest rate cannot be >2% higher than the current ARM rate. All mortgage payments must have been made on time for the last 12 months or for the time the loan has been in place, if <12 months.
 - ❖ If the transaction is for a fixed to an ARM, the new ARM interest rate must be at least 2% lower than the current fixed rate.
 - ❖ If the transaction is for an ARM to an ARM, there must be an immediate payment reduction of at least \$50.00 and the maximum interest rate on the new loan cannot exceed the maximum rate on the existing loan. Note, 1 yr ARM to hybrid ARM (3/1 & 5/1) must meet this payment reduction.
 - ❖ There are no exceptions to the requirements above.
- **For a streamline refinance WITH an appraisal the maximum mortgage is the lower of the LTV limitation of 97.75% OR the calculation below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - ❖ Multiply the appraised value of the property by 97.75% OR
 - ❖ Add together the amount of the existing first lien, any purchase money second, any junior liens >12 months old, closing costs, prepaid expenses, borrower paid repairs required by the appraiser, discount points, then subtract any refund of the upfront MIP.
- **Note: If any portion of the funds from an equity line >\$1,000 was advanced within the last 12 months and was used for any purpose other than repairs and rehabilitation of the property, the line of credit is NOT eligible for inclusion in the new mortgage.**
- **For a streamline refinance WITHOUT an appraisal (owner occupied properties) the maximum mortgage is the lower of the 2 calculations below and may never exceed the maximum loan limit for the property location (excluding the upfront MIP):**
 - ❖ The original principal balance on the mortgage (which will include any upfront MIP) plus the new upfront MIP that will be charged on the refinance OR
 - ❖ Add together the amount of the existing first lien, closing costs, prepaid expenses, discount points, then subtract any refund of the upfront MIP.
- Pre-paid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposit, monthly mortgage insurance premiums and real estate tax deposits needed to establish the escrow account regardless of whether the mortgagee refinancing the existing loan is also the servicing lender for the loan.
- The amount of the existing first lien may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typical for FHA mortgages). They amount also may include any prepayment penalties assessed on a conventional mortgage.
- Subordinate liens, including credit lines, regardless of when taken out, may remain outstanding, but must be subordinated to the new mortgage.
- **The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions.**
- **Note: For streamline refinances the new loan approval must be dated > 90 days from the recording date of the last transaction.**

**For Case Numbers Assigned on and after 11/17/09 –
STREAMLINE REFINANCE TRANSACTIONS:**

In addition to the general guidelines above, the following revised parameters apply:

- At the time of **application**, the borrower must have made at least 6 payments within the month due on the FHA-insured mortgage being refinanced.
- Streamline refinances must result in an immediate payment reduction for the borrower.
 - ❖ If the transaction is for a fixed rate to fixed rate, the greater of a 5% reduction or a \$50.00 reduction in **total housing payment** is required. Note, fixed rate to hybrid ARM (3/1 & 5/1) must meet this payment reduction.

**REFINANCES:
(cont'd)**

- ❖ If the transaction is for an ARM to fixed rate, the new fixed interest rate cannot be >2% higher than the current 1 year ARM rate. For a hybrid ARM, the total mortgage payment on the new fixed rate may not increase by more than 20%.
- ❖ If the transaction is for a fixed to an ARM, the new 1 year ARM interest rate must be at least 2% lower than the current fixed rate.
- ❖ If the transaction is for an ARM to an ARM, there must be an immediate **total housing payment** reduction of the greater of 5% reduction or \$50.00 and the maximum interest rate on the new loan cannot exceed the maximum rate on the existing loan. Note, 1 yr ARM to hybrid ARM (3/1 & 5/1) must meet this payment reduction.
- ❖ Reduction in term transactions are not permitted as streamline transactions, they must be underwritten as a standard rate/term refinance.
- ❖ Investment properties and second homes are not eligible for streamline refinancing to ARMs.
- ❖ There are no exceptions to the requirements above.
- **For a streamline refinance WITH an appraisal the maximum mortgage is the lower of**
 - ❖ The outstanding principal balance *minus* the applicable refund of the UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP
 - OR
 - ❖ 97.75% of the appraised value of the property plus the new UFMIP.
 - ❖ Discount points may **not** be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify that the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.
- **For a streamline refinance WITHOUT an appraisal (owner occupied properties) the maximum mortgage is**
 - ❖ The outstanding principal balance *minus* the applicable refund of the UFMIP
 - PLUS*
 - ❖ The new UFMIP that will be charged on the refinance
- **Note:** The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month, but may **not** include delinquent interest, late charges or escrow shortages.
- Existing subordinate financing may remain in place to a maximum of **125% CLTV** if the borrower has an acceptable payment history on all liens.
 - For streamline refinances **without** an appraisal, the CLTV is based on the original appraised value of the property.
 - For streamline refinances **with** an appraisal, the CLTV is based on the new appraised value.
- **The maximum base loan amount may not exceed the statutory limit for each county/MSA. This includes streamline refinance transactions.**

Cash-out Refinances:

- Paying off the outstanding balance of the existing first mortgage, including any prepayment penalty.
- Paying off any subordinate lien.
- Financing of closing costs.
- Cash out refinance transactions require 6 months seasoning, measured from note date/closing date to application date. In addition, all borrowers on the new loan must be on title for at least 6 months.

NOTE:

- ❖ **Non-occupant co-borrowers or co-signers may not be added on a cash-out refinance transaction per mortgagee letter 08-40, page 5. Co-signers must occupy the property.**
- ❖ **The maximum base loan amount may not exceed the statutory limit for each county/MSA.**

**SUBORDINATE
FINANCING:**

Secondary Financing by a Family Member:

- Family members may lend 100% of the borrowers required cash investment (On a secured or unsecured basis) including the down payment, closing costs, prepaid expenses and discount points.
- The family member providing the secondary financing may not borrow the funds from an interested party to the transactions. (i.e. seller, builder, loan officer or real estate agent)
- The borrower receiving the funds from a family member may not be on the note used to secure the funds. For example a son and daughter-in-law may not be on the note for the funds borrowed by the parents that in turn lent the money for the down payment.

Secondary Financing by a Government Agency:

- Federal, state and local government agencies may provide secondary financing for the borrower's entire cash investment.
- The first mortgage combined with the second mortgage, as well as any other mortgages, grants and so on may not provide cash back to the borrower.
- The sum of all financing may not exceed 100% of the cost to acquire the property, which would include any normal closing costs and prepaid expenses. This may result in CLTV over 100%.
- The monthly payment under the first and second lien, plus housing expenses and recurring charges, may not exceed the borrower's reasonable ability to pay the debt.
- The source, amount and repayment terms must be disclosed on the application and the borrowers must acknowledge they agree to the terms.
- A copy of the subordinate lien note must be in the loan file.

Additional Secondary Financing Restrictions:

- Secondary financing from a non-approved charitable organization or non-profit agency is not permitted. The secondary financing must come from an approved FHA charitable organization/non-profit agency. Lenders must determine if the down payment assistance program meets HUD requirements and is approved by HUD.
- The combined loan amount of the first and second may not exceed 100% of the lesser of the property value or sales price, plus normal closing costs, prepaid expenses and discount points. The resulting CLTV may exceed 100%.
- Federal tax liens may remain unpaid provided an IRS tax lien is subordinated to the first lien. The borrower's credit worthiness must be assessed and the cause for the tax lien must be documented.
- Existing subordinate financing may be re-subordinated on a rate/term refinance per guidelines above, the borrower must have 12 months history 0x30 payments and the borrower must benefit from the transaction.
- "Silent" seconds (with no regular payment required) are permitted

Secondary Financing from other Organizations and Private Individuals (sellers): Other organizations and private individuals may provide secondary financing under the following conditions:

- The combined amount of the first and second mortgages do not exceed the applicable LTV ratio and the maximum mortgage limit for the area.
- The repayment terms of the second mortgage must not provide for a balloon payment before ten years (or other such term acceptable to FHA), unless the property is sold or refinanced, and must permit prepayment by the borrower, without penalty, after giving the lender 30 days advance notice.
- The required monthly payment under both the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, cannot exceed the borrower's reasonable ability to pay. Any periodic payments due on the second mortgage are due monthly and are essentially the same in dollar amount.

**SUBORDINATE
FINANCING:
(cont'd)**

For Streamline Refinance transactions with case numbers issued on or after November 17, 2009: Existing subordinate financing may remain in place to a maximum of **125% CLTV** if the borrower qualifies with payments on all liens.

- For streamline refinances **without** an appraisal, the CLTV is based on the original appraised value of the property.

For streamline refinances **with** an appraisal, the CLTV is based on the new appraised value.

- **For Streamline Refinance transactions with case numbers issued on or after November 17, 2009:** Existing subordinate financing may remain in place to a maximum of **125% CLTV** if the borrower has an acceptable payment history on all liens.
 - For streamline refinances **without** an appraisal, the CLTV is based on the original appraised value of the property.
 - For streamline refinances **with** an appraisal, the CLTV is based on the new appraised value.

**EMPLOYMENT
INCOME:**

- Reminder: Income for each borrower to be obligated for the mortgage debt must be analyzed whether it can reasonably be expected to continue through at least the first 3 years of the mortgage loan.
- All borrowers must have a valid social security number. Evidence of the social security number must be obtained. Acceptable evidence may include a copy of the social security card OR a pay stub, W-2 or other government-issued card that includes the borrower's social security number.
- FHA requires validation of Social Security numbers for consistency with the borrower's name, date of birth through FHA Connection and ECHO systems or their equivalent.
- The borrower's employment/income history must be verified for the most recent 2 years.
- Overtime and bonus income may be used if the borrower has received the income for at least 24 months and it is likely to continue.
- A verbal verification of employment is required for salaried and self-employed borrowers.
- The salaried borrower's employment/income is verified with their current employer.
- The self-employed borrower's employment/income is verified by the most recent 2 years federal tax returns (personal and business required) and YTD P & L.
- Commission earnings also require two years tax returns.
- A signed 4506-T will be processed by Stearns regardless of AUS findings (except non-credit qualifying streamline refinance)
- For 3-4 unit properties, property must debt service (i.e. all market rents must exceed PITIA)

ASSETS:

- Assets must be liquid and or must be readily converted to cash. Assets must be converted to cash without retirement or job termination.
- Liquid assets include checking accounts, savings accounts, CD's, gifts, money market, mutual funds, stock, trust funds, net equity, bridge loans, bonds, secured borrowed funds, etc.
- Funds from personal assets that are sold prior to closing are acceptable as long as the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. The ownership of the asset and the value of the asset must be documented. The borrower must provide a bill of sale and proof of receipt of funds.
- Assets such as 401(k), IRA, thrift savings plans etc. may be used for cash reserves up to 60% of vested value unless the borrower can document a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.
- Funds borrowed against 401(k), IRA, thrift savings plans, etc. may be used for loan closing, **may not** be considered cash reserves.
- On streamline refinances, if assets are required to close, verification and documentation of assets is required regardless of the amount needed. The following should be used to verify assets: VOD and most recent bank statement, or 2 months bank statements.
- Business assets may be used for down payment and closing costs as follows:
 - The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
 - The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
 - Business funds are not an eligible source of funds for cash reserves.

CASH RESERVES:

- Cash reserves are not required on 1-2 unit properties.
- On 3-4 unit properties, 3 months PITI is required for reserves.
- Funds borrowed against 401(k), IRA, thrift savings plans, etc. **may not** be used for cash reserves.
- Assets such as equity in other properties and the proceeds from a cash-out refinance **may not** be used for cash reserves.
- Gift funds **may** be used for reserves. The gift must come from a family member.
- Business funds are not an eligible source of funds for cash reserves.

**GIFTS/ DOWN
PAYMENT:**

- On a purchase transaction borrowers must contribute a minimum 3.5% of the lesser of the sales price or appraised value. A minimum down payment is not required on refinance.
- Closing costs **MAY NOT** be used to help meet the minimum down payment requirement.
- Down payment assistance programs are permitted as long as the following requirements are met:
 - ❖ The underwriter must make sure the non-profit agency meets HUD requirements. (Mortgagee letter 2006-13 and HUD Handbook 4155)
 - ❖ Down payment assistance is not permitted from:
 - The seller or any other person or entity that financially benefits from the transaction OR
 - Any 3rd party or entity that is reimbursed, directly or indirectly, by the seller or any other interested party to the transaction.
 - ❖ The underwriter must check this website to make sure the agencies non-profit status is still acceptable to HUD: <http://www.hud.gov/offices/hsg/sfh/np/irstatus.cfm>
 - ❖ A printed copy of the web site page showing the agency has not had their tax-exempt status terminated by the IRS prior to the date of the sales contract/purchase agreement and all amendments must be included in each loan file.
 - ❖ The Federal tax ID# of the non-profit must be entered in CHUMS.
 - ❖ The gift should only be used towards the down payment and closing costs. The file should contain a gift letter stating that no repayment is required.
 - ❖ The appraiser must be informed of the gift and dollar amount being used for down payment assistance. The sales price should not be increased to accommodate the down payment assistance.
 - ❖ The closing agent must confirm the gift funds have been property deposited in an escrow account and the funds came directly from the non-profit. Gift funds **may not** be disbursed from the property seller's proceeds at closing.
 - ❖ 3 current closed appraisal comparables (within 90 days) OR an AVM OR a field review is required to support value.
- **Note: Discount points, pre-paid expenses, etc. or any portion of these charges may not be used towards the down payment.**

Notes:

- Gifts must come from a relative, domestic partner or fiancé.
- Gifts may also be obtained from the borrower's employer or labor union.
- Cash on hand is not an acceptable source of gift funds.
- A gift letter must be provided and include the name, address and telephone number of the donor, the relationship to the borrower, state the dollar amount of the gift and that no repayment is expected or required.
- If the gift funds are already in the borrowers account the transfer of funds must be documented by obtaining a copy of the canceled check or other withdrawal documents showing the withdrawal from the donors personal account along with the homebuyers deposit slip or bank statement that shows the deposit.
- If the gift funds are not already in the borrowers account, transfer of the gift funds to the borrowers account or to escrow (or the closing agent) must be documented. Acceptable documentation is a copy of the certified check and a bank statement showing withdrawal from the donors account.
- If the gift funds were borrowed and the donor cannot provide documentation the monies were in a bank account, the donor must provide evidence the funds were borrowed from an acceptable source. (i.e., not a party to the transaction.)
- If the gift funds come from the borrower's employer or labor union a copy of the legal agreement that specifies the terms and conditions of the gift must be obtained. The legal agreement must (a) identify the donors mailing address, (b) state the funds are a gift and don't have to be repaid AND (c) show how the funds will be transferred.

DOCUMENTATION TYPES:	<ul style="list-style-type: none"> • Loan applications on this program must be fully documented. • Income, employment and assets are fully verified. • Note: Effective for case numbers issued on or after November 17, 2009, the following documentation requirements apply on streamline refinance transactions: <ul style="list-style-type: none"> ○ A signed and dated cover letter on company letterhead is required certifying that the borrower is employed and has income at the time of the loan application. ○ Note: if the borrower has “other” income from non-employment sources, contact corporate support for guidance on verifying employment/income on streamline refinances. ○ If assets are required to close, the lender must document and verify those assets.
SECTION 6:	PROPERTY/APPRAISALS
ELIGIBLE PROPERTIES:	<p>Eligible Properties are attached & detached SFR, 2-4 units, FHA approved condo projects and PUD units</p> <p>Condition of Property: For all real estate transfers (purchase transactions). All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.</p> <p>1-4 unit primary residences are insured under section 203(b) of HUD. The borrowers must occupy the property within 60 days after closing and must continuously occupy the property for one year unless they can document hardship or extenuating circumstances.</p> <p>Condos are insured under section 203(b) of HUD as of case numbers issued on or after 12/7/09.</p> <p>Modular Housing is acceptable. Modular housing is prefabricated, panelized or sectional housing that assumes the characteristics of a site built home, meets all local and state building codes, is permanently affixed to the land and is legally classified as real estate. At least one comparable sale must be of a modular home.</p> <p>Listed Properties/Refinance Transactions: Properties may not be currently listed at the time of application.</p> <ul style="list-style-type: none"> • The property listing agreement must be cancelled a minimum of 1 day prior to the application date. • A copy of the cancelled/expired listing must be included in the file. • Appraiser must note that the property is not currently listed. • For owner occupied transactions, the borrower must confirm the intent to occupy the property. • For cash out refinances where property has been previously listed within the last 6 months, the maximum LTV/CLTV/HCLTV is 70%. <p>New Construction Requirements: HUD requires the following documentation for existing construction that is less than one year old:</p> <ul style="list-style-type: none"> ❖ Builder Certification (HUD form 92541) – for LTV <90%, only top of form needs to be completed/signed by builder; for LTV 90% and above, entire form needs to be completed/signed by builder ❖ 1 yr Builder Warranty (HUD form 92544) – for LTV 90 and above – must be completed/signed by builder AND buyers ❖ Certificate of Occupancy or Final Inspection by FHA Fee Inspector or local authority (if appraisal is completed “as is”- appraisal can be used for final) ❖ 10 yr warranty – may use copy of permit and Certificate of Occupancy in lieu of 10 yr warranty - (not required on LTV <90%; or when appraisal is completed prior to start of construction (photos show land only) ❖ Local authority inspections - If appraisal is completed as proposed construction or under construction ❖ Termite Soil Forms NPCA-99A (completed/signed by builder) and NPCA-99b completed/signed by termite company where required per HUD Tip zones – check link http://www.hud.gov/offices/hsg/sfh/ref/sfh1-23a.cfm for State where property is located ❖ Builder Acknowledgement of Potable Water ❖ Carpet/Insulation/Manufacturers Warranties

**ELIGIBLE
PROPERTIES:
(cont'd)**

- Properties are not eligible for mortgage insurance** if the resale date is ≤ 90 days following acquisition by the seller. Loans with resale dates >90 days up to 12 months may require supplemental documentation, including an additional appraisal
- ❖ When the property is being sold by someone other than the mortgage holder (or by their subsidiaries or by vendors to whom they have transferred titles to properties for that purpose) the FHA guidelines per Mortgagee Letter 2006-14 apply, i.e. the purchase contract must be dated at least 91 days from the date the seller took ownership.
 - ❖ **For any sale where the seller has owned the property from 91 to 180 days and the new sales price is 100% or higher than the seller acquisition cost, a second appraisal dated prior to closing is required to confirm the value. This 2nd appraisal fee can not be charged to the borrower.**
- Properties owned by an individual or entity (other than the mortgage holder) <90 days are not eligible for financing except as noted on the new waiver below.
 - Properties <12 months old, not built under FHA or VA supervision and not previously owner occupied are limited to a maximum LTV of 90%.
- HUD has issued a waiver of the 90 day rule effective February 1, 2010.**
- At this time, we can accept properties if the contract of sale for purchase is executed within 90 days of the prior acquisition by the seller under the following circumstances:
 - The transaction must be arms-length with no identity of interest between the buyer and the seller or other parties in the sales transaction.
 - The seller must hold title to the property at the time of the purchase contract.
 - LLCs, corporations or trusts that are serving as sellers must be established and operated in accordance with applicable state & Federal law.
 - No pattern of previous flipping activity exists for the subject property, as evidenced by multiple title transfers within a 12 month time frame.
 - The property must be marketed openly and fairly via MLS, auction, FSBO offering or developer marketing (any sales contracts that refer to an "assignment of contract of sale" which represents a special arrangement between seller and buyer may be a red flag).
 - The sales price of the property **must be less than 20%** above the seller's acquisition price. We are not accepting the additional HUD waiver conditions for increases of 20% or more at this time.
 - HUD has clarified that the list of regulatory exemptions is still applicable, and exempt sales do not have limitations or documentation requirements based on the sales price increase over the seller's acquisition cost:
 - FHA REO properties sold by HUD
 - Resale of properties purchased by an employer or a relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency does NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
 - Property inherited by the seller. The seller is not required to hold title to the property for 90 days prior to sale; they must still be the owner of record. Also since there was no previous sale of the property, the second appraisal requirement would not be triggered. Underwriter must include documentation evidencing the inheritance in the file.
 - Sales by other US government agencies pursuant to programs operated by these agencies.
 - Sales of properties by nonprofits approved to purchase HUD owned single family properties at a discount.
 - Sales of properties by state and federally chartered financial institutions and government sponsored entities (Fannie Mae & Freddie Mac). Note: MI companies are not considered a state or federally chartered institution and are not qualified as government sponsored enterprise.
 - Sales of properties by local and state government agencies
 - Sales of properties within Presidentially-declared disaster area (upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster)

**INELIGIBLE
PROPERTIES:**

Ineligible properties: second homes, non-owner occupied properties, condotels, kiddie condos, timeshares, cooperatives, historic properties, earth homes, properties on stilts, posts or piers, commercial properties, unimproved land, commercial properties, **manufactured homes**, properties with deed restrictions, properties on Indian leased land, New construction located in a flood zone unless LOMA, LOMR or Elevation Cert is obtained, condo projects deemed ineligible by HUD.

Re-negotiated purchase agreement policy:

- Stearns will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
 - The appraised value is higher than the contracted sales price provided to the appraiser, and
 - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
 - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
 - A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
 - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

**STATE
RESTRICTIONS:**

- Stearns may make FHA loans in all the states they have lending licenses or exemptions in.
- **Condo projects are not permitted in Florida.**

**CONSTRUCTION/
PERM:**

Not applicable

APPRAISAL:

- A full appraisal from an FHA approved and state certified appraiser is required.
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report
- **Effective with case numbers issued on or after January 1, 2010:** The property must have been appraised/ inspected within 120 days of the date of the note, otherwise a new appraisal must be obtained. HUD will not accept a re-certification of value.
- Appraiser independence requirements outlined in ML 2009-28 must be met for all case numbers issued on or after 2/15/10.
- Appraisal portability guidelines outlined in ML 2009-29 is effective for all case numbers assigned on or after 1/1/10:
 - When a borrower switches from one lender to another, the first lender must, at the borrower's request, transfer the case to the second lender. Transferring the case requires the first lender to:
 - Transfer the FHA case number to the second lender using the **Case Transfer** functionality within FHA Connection.
 - Provide the second lender with a copy of the appraisal report ordered by and completed for the first lender.
 - A second appraisal should only be ordered if there are material deficiencies, the appraiser is on the second lender's exclusionary appraiser list, or the first lender has failed to provide a copy of the appraisal to the second lender in a timely matter. In these cases, a new case number should not be ordered and the remaining mortgagee letter requirements must be followed.
 - Note: the underwriter must verify with the transferring lender whether an appraisal has been ordered, and we must validate that the appraisal submitted is the same appraiser that is tied to the loan in FHA Connection.
- A reduction in LTV/CLTV is not required for FHA loans in declining markets.
- If an appraisal is completed by an appraiser other than the appraiser listed in FHA connection, a letter from the original appraiser is required stating that the appraisal assignment was not completed.

**APPRAISAL:
(cont'd)**

- Appraisal inspection date can not precede the case number assignment date.
- For case numbers issued prior to January 1, 2010: The property must have been appraised/inspected within 12 months of the date of the note. If the appraisal is >6 months old as of the date of the note (>12 months for new construction), a new appraisal must be obtained. HUD will not accept a re-certification of value.
- A reduction in LTV/CLTV is not required for FHA loans in declining markets.
- **Condition of Property: For all real estate transfers (purchase transactions).** All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.
- The cost approach is no longer required on all appraisals, but the site value must be completed.
- **Properties in declining markets** have additional appraisal reporting requirements per ML 2009-09 as follows: The appraiser must
 - include a minimum of at least 2 comparable sales that closed within 90 days.
 - include a minimum of two active listings or pending sales on the appraisal grid in comparable 4-6 position or higher in addition to the 3 settled sales.
 - insure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of over priced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood. The comparable listings must be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.
 - adjust active listings to reflect list to sale price ratios for the market.
 - Include the original list price, any revised list prices, and total days on the market

Note: For all transactions ~ the underwriter must pull additional comps if there is **more than one** comparable sale on the appraisal older than 90 days from the date of the appraisal OR located >1 mile from the subject property for urban & suburban properties and > 5 miles away for rural properties. The additional comps must support the appraised value. If the comps do not support the appraised value, the underwriter must contact the appraiser for further clarification. If the clarification is not satisfactory, an enhanced desk review must be obtained and must support the appraised value. If the enhanced desk review does not support the appraised value, the value must be reduced. If the appraised value is reduced by the underwriter, an underwriting certification on form# 54114 must be completed and retained in the file on top of the appraisal. If the loan approval has expired, comparables should be verified to ensure that they are within 90 days of the new approval date, otherwise the underwriter needs to obtain new comparables to verify that the value is still supported. **Note: If there are NO additional comps available: If comps are > 90 days to 6 months old, no additional reviews will be required. If the comps are > 6 months old, the appraisal must include time adjustments.**



CONDO PROJECTS:

- Beginning with case numbers issued on or after December 7, 2009, condos are processed under Section 203(b) of the Act.
- Effective with **all case numbers issued on or after December 7, 2009**, approval procedures outlined in ML 2009-46B must be followed. Stearns will be using the HRAP process and will **not** be participating in the DELRAP process.
- Spot condo approvals are permitted for case numbers issued **before** February 1, 2010.
- The FHA approved project list may be accessed through FHA Connection or ECHO systems.
- Site condos (single family dwellings encumbered by condo ownership) are eligible as long as the project consists of detached SFRs and have no common improvements other than greenbelts, private streets and parking areas. Shared garages or any other attached buildings are not permitted. Condominium rider is required.
- Project eligibility requirements are outlined in ML 2009-46A & 2009-46B.
- Ineligible projects: Condo-hotels, timeshares, segmented ownership projects, houseboat projects, multi-dwelling condominiums (i.e. more than one dwelling per condominium unit), projects not deemed primarily as residential.
- Beginning with case numbers issued on or after December 7, 2009, HO-6 “walls in” policy is required in cases where the master 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.
- **Condo projects are not eligible in Florida.**

**SECTION 7:
MORTGAGE
INSURANCE:**

INSURANCE

UPFRONT AND ANNUAL MIP REQUIRED					
Terms > 15 Years			Terms ≤15 years		
LTV	UFMIP	Annual	LTV	UFMIP	Annual
>95%	1.75%	.55%	>90%	1.75%	.25%
≤95%	1.75%	.50%	≤90%	1.75%	N/A

Streamline Refinance: UFMIP = 1.50% with or without an appraisal; annual MIP follows the grid above.

CHANGE TO UPFRONT MI PREMIUMS EFFECTIVE WITH CASE NUMBERS ISSUED ON OR AFTER APRIL 5, 2010:

UPFRONT AND ANNUAL MIP for case numbers issued on or after April 5,2010					
Terms > 15 Years			Terms ≤15 years		
LTV	UFMIP	Annual	LTV	UFMIP	Annual
>95%	2.25%	.55%	>90%	2.25%	.25%
≤95%	2.25%	.50%	≤90%	2.25%	N/A

Streamline Refinance: UFMIP = **2.25%** with or without an appraisal; annual MIP follows the grid above.

Monthly mortgage insurance is automatically cancelled by HUD once the principal loan balance reaches 78% of the lower of the initial sales price or the appraised value based on the initial amortization rate provided the borrower has paid the annual MIP for at least 5 years. MIP cancellation on a streamline refinance without an appraisal is determined based on the “original appraised value” provided by HUD.

**SELF-INSURED
OPTION:**

Not applicable



HAZARD INSURANCE:	<ul style="list-style-type: none"> • Hazard insurance is required for each property. • The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements. • For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property. • The maximum deductible may be up to 5% of the amount of the policy. • Beginning with case numbers issued on or after December 7, 2009, HO-6 “walls in” policy is required in cases where the master 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. • HO-6 “walls in” will also be required on PUDs in cases where the master 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.
FLOOD INSURANCE:	<ul style="list-style-type: none"> • A flood hazard determination is required for all loans. • Flood insurance is required if the property is located in a special flood hazard area or flood zone. • Flood insurance is required on properties located within the following special flood hazard area zones: A, AE, AH, AO, A1-30, A-99, V, VE, V1-30 • The maximum amount of flood insurance required is the lowest of: 100% of the replacement cost of the dwelling, calculated as appraised value minus land value OR the unpaid principal balance of the mortgage OR the maximum insurance available under the National Flood insurance program. (Currently \$250,000 per dwelling.) • The deductible for 1-4 unit properties may not exceed a maximum of \$5,000 unless a higher maximum is required by state law.
RENT LOSS INS:	Not applicable
IMPOUNDS:	Required for all properties regardless of LTV. This includes impounds for “walls-in” HO-6 policy premiums.
SECTION 8	TITLE/CLOSING AGENTS
TITLE DOCUMENTATION:	<p><u>Title History Review Policy:</u> The preliminary title report must reflect a minimum 6-month title history.</p> <p><u>Title Insurance:</u> A full ALTA title policy is required.</p>
PLAT/SURVEYS:	<ul style="list-style-type: none"> • Surveys are required in some areas. See Stearns state lending information for survey requirements. • If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided. • If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.



<p>INTER VIVOS REVOCABLE TRUSTS:</p>	<p>Not eligible</p>
<p>POWER OF ATTORNEY:</p>	<p>A Specific (or Limited) power of attorney must meet the following requirements:</p> <ul style="list-style-type: none"> • Clearly reference the subject property (if a legal description is referenced, it must be stated or attached accordingly) • Authorize the attorney-in-fact to enter into a real estate transaction and to mortgage the property (for refinance transactions, must specify the terms of the transaction) • Indicate clearly that the mortgagor is appointing an attorney-in-fact • Precisely identify who is being appointed • Identically match the legal name(s) on the POA to the typed name(s) and signature(s) for the Borrower and POA. If the legal signature differs from the typed name, a notarized Signature/Name Affidavit is required. • Must be signed and dated by the borrower (aka principal) • Must be notarized (notary must be complete, contain a valid date, and no blank fields) • Must be signed no more than 90 days prior to, or concurrent with, the date of the security instrument • Must be recorded prior to, or concurrent with, the date of the security instrument. • May not contain any blank fields. • Must be acceptable to the title company issuing the title policy. • General POA's are not acceptable. • In all states, documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety as abbreviations (AIF, POA, etc) are not acceptable. The same information must be typed on the documents.
<p>SECTION 9: FEE LIMITATIONS:</p>	<p>FEES/MISCELLANEOUS</p> <ul style="list-style-type: none"> • Points and fees include an origination charge that includes underwriting fees, broker fees, finder's fees and any other fees that the lender charges as a condition of making the loan whether they are paid to the lender or a 3rd party. • Bona fide discount points (points used to lower the interest rate), fees paid for actual services performed to make the loan (i.e. attorney fees, notary fees, appraisal, credit reports, surveys title exams, flood and tax certifications, home inspections, cost of MI, title policies, hazard insurance, flood insurance, transfer taxes and fees, escrow deposits for tax and insurance premiums) AND other miscellaneous fees that in total do not exceed .25% of the loan amount are not included in the points and fees calculation. • Note: Discount points may only be charged by the lender, and may not be charged by the broker unless state guidelines require otherwise. • Points and fees that exceed state "high cost" thresholds are not eligible for financing. • Loans where the "points and fees" or "annual percentage rate" exceed the maximum thresholds described under HOEPA (Section 32) or state "high cost" test, whichever is more restrictive, are not eligible for purchase. • The HOEPA restrictions apply to all types of mortgages (Purchases and refinances) except second homes, non-owner occupied properties or HELOC. • Reminder: Section 32 (HOEPA) thresholds are: APR that exceeds the yield on the Treasury securities for the same term of the loan by >10% OR the total points and fees paid by the borrower exceeds the greater of 8% or the maximum dollar amount set annually by the Federal Reserve. • See the applicable Lending Information for state "high cost" thresholds. • For a purchase transaction the maximum real estate commission cannot exceed 8% of the sales price. • Broker compensation is limited to 4% of the loan amount.



SELLER/INTERESTED PARTY CONTRIBUTIONS:	<p>Maximum 6% seller/interested party contributions.</p> <p>Seller/interested party contributions exceeding 6% must be subtracted from the sales price (or value, if less) before applying the down payment percentage multiplier.</p> <p>Note: Seller/interested party contributions may be used for closing costs and pre-pays. HOA subsidies are not permitted. HOA fees due at closing may be paid with interested party contributions; however, payments due after closing can not be paid in advance through interested party contributions.</p> <p>Please see the LTV/CLTV/value and Ineligible Properties sections above for instances where a re-negotiated purchase agreement is issued after the appraisal is completed.</p>
MISCELLANEOUS:	<ul style="list-style-type: none">• Premium pricing may be used to pay closing costs and prepaids, including the accrued interest on a refinance transaction.• Borrowers may not pay a tax service fee and they may not be charged an origination fee >1% of the loan amount.