Direct Mortgage Wholesale™

**Program Guidelines**

# 6206 Program Guideline

## FHA Streamline with Appraisal

# Streamline Guide

| THE FOLLOWING CONDITIONS APPLY: | |
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| | **I. <u>Revisions for ALL Streamline Refinance Transactions</u>** |

**THE FOLLOWING CONDITIONS APPLY:**

## I. Revisions for ALL Streamline Refinance Transactions

### A. Seasoning

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

### B. Net Tangible Benefit

The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal. Net tangible benefit is defined as:

- reduction in the total mortgage payment (principal, interest, taxes and insurances, homeowners' association fees, ground rents, special assessments and all subordinate liens),
- refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage,
  *OR*
- reducing the term of the mortgage.

Reduction in Total Mortgage Payment: The new total mortgage payment is 5 percent *lower* than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is $895; the total mortgage payment for the new FHA-insured mortgage must be $850 or less.
This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, Fixed Rate to Hybrid ARM from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b).

Fixed Rate to ARM: Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 percentage points below the interest rate of the current mortgage.

ARM to Fixed Rate: The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent . Example: total mortgage payment on the hybrid ARM is $895; the total mortgage payment for the new fixed rate mortgage must be $1,074 or less.

Reduction in Term: For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.

Reduction in Total Mortgage Payment: The new total mortgage payment is 5 percent *lower* than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is $895; the total mortgage payment for the new FHA-insured mortgage must be $850 or less.

This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from Fixed Rate to Hybrid ARM, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b).

Fixed Rate to ARM: Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 percentage points below the interest rate of the current mortgage.

ARM to Fixed Rate: The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent. Example: total mortgage payment on the hybrid ARM is $895; the total mortgage payment for the new fixed rate mortgage must be $1,074 or less.

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| **CONDITIONS** *(CONTINUED)* | Reduction in Term: For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.<br><br>Investment Properties/Secondary Residences: In addition to meeting the requirement for a reduction in the total mortgage payment, investment properties or secondary residences are *not* eligible for streamline refinancing to ARMs.<br><br>**C. Certifications and Verifications**<br><br>When submitting the loan for insurance endorsement, the lender must include a signed and dated cover letter on their letterhead certifying that the borrower is employed and has income at the time of loan application.<br><br>If assets are needed to close, the lender must verify and document those assets.<br><br>The lenders must also include the pay-off statement in the case binder.<br><br>**D. Maximum Combined Loan to Value**<br><br>No new subordinate financing is allowed.<br><br>If subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 125 percent. As of 12-4-09 the max CLTV is 100%.<br><br>• For streamline refinance transactions WITHOUT an appraisal, the CLTV is based on the original appraised value of the property.<br><br>• For streamline refinance transactions WITH an appraisal, the CLTV is based on the new appraised value.<br><br>**E. TOTAL Scorecard**<br><br>**II. Revised Streamline Refinance Transactions WITHOUT an Appraisal**<br><br>The maximum insurable mortgage cannot exceed:<br>• The outstanding principal balance[1] *minus* the applicable refund of the UFMIP,<br><br>PLUS<br><br>• The new UFMIP that will be charged on the refinance.<br>**III. Revised Streamline Transaction WITH an Appraisal**<br>The maximum insurable mortgage is the *lower* of:<br><br>1) Outstanding principal balance[1] *minus* the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charge on the refinance;<br><br>*OR*<br><br>2) 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.<br><br>Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.<br>**IV. Revised Streamline Transaction WITH an Appraisal**<br>The maximum insurable mortgage is the *lower* of: |

| **CONDITIONS** *(CONTINUED)* | |
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| | 3) Outstanding principal balance[1] *minus* the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charge on the refinance;<br><br>*OR*<br><br>4) 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.<br><br>Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.<br><br>**V. <u>Additional Guidelines</u>**<br>1) 5% NTB is now based off P&I and MIP<br><br>2) On a Non-Credit Qualifying Streamline you can no longer use the appraisal to increase the mortgage balance beyond the sum of the principal balance and the new upfront MIP. Closing costs, discount points, and prepaid items may not be added to the new mortgage; a regular FHA refinance must now be done in this case to add these.<br><br>3) At least 210 days must pass from the closing date of the mortgage being refinanced to the date the case number is assigned when doing a streamline refinance. |

[1] 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.

Direct Mortgage Wholesale™

Program Guidelines

# DMC FHA Guide

# FHA Fixed Rate/ARM

**General Description:**
FHA Fixed Rate principal and interest level payments for the life of the loan.
Follow published FHA guidelines if item not addressed below.
**Lenders are responsible for complying with all applicable FHA/HUD regulations as further modified by the guidelines within this product description.**

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| **APPRAISAL** | **Appraisal Forms**<br>• 1 unit residence requires Form 1004.<br>• 2-4 unit residence requires Form 1025.<br>• Condo requires Form 1073.<br>• All appraisals of 1-4 unit properties dated on/after April 1, 2009 must contain the Market Conditions Addendum to the Appraisal Report (Form 1004MC).<br>**Appraiser Requirements (See ML 2008-39** and **ML 2009-36)**<br>• All FHA appraisals must be assigned to state certified (certified residential or certified general) FHA Roster Appraisers effective October 1, 2009.<br>• It is the responsibility of the submitting lender to verify the state certified status of the appraiser at the time of appraisal assignment.<br>• The appraiser status may be verified within FHA Connection under Single Family FHA/Single Family Origination/FHA Approval Lists/Appraisers.<br>• FHA Appraisals assigned to a non-certified appraiser on or after October 1, 2009 are unacceptable, and a second FHA appraisal must be completed by a state certified appraiser at the submitting broker's/lender's expense.<br>• Non-Permitted additions are not allowed.<br>**Transferred Appraisals**<br>• DMC will accept FHA appraisals ordered by other lenders for FHA loans. The following conditions apply:<br>1. The FHA case number date must be on or after February 15, 2010;<br>2. The appraisal must have been ordered by the previous lender;<br>3. The appraiser must provide an HVCC "Certificate of Compliance";<br>4. The previous lender must provide a transfer letter;<br>5. The underwriting disposition sheet from the previously lender is required; and<br>6. A desk review of the appraisal must be ordered through DMC's shopping cart.<br>**Purchase Price Negotiations**<br>• DMC will no longer allow the purchase price to be renegotiated upwards if an appraisal has already been performed. This applies to all loans locked on or after 1/21/09.<br>**Age of Appraisal**<br>• Maximum 120 days effective with case numbers assigned on or after January 1, 2010. This applies regardless of the property's construction stage (existing, new, under construction, or proposed). See ML 2009-30 |
| **BORROWERS**<br>*(ELIGIBLE / INELIGIBLE)* | • Effective October 15, 2007, borrower social security information will no longer be validated in real time when a new case number assignment is requested in FHA Connection. The validation process will no longer provide an acceptable confidence rating at the time of case number assignment. Refer to the FHA Connection Message Board for the announcement dated October 10, 2007 for complete details and requirements. DMC will require evidence of the "passed" validation through the Holds Tracking Screen in FHA Connection.<br>**Eligible**<br>• Individuals with a valid U.S. Social Security Number (SSN).<br>• Permanent and non-permanent Resident Aliens, provided they:<br>- Have a valid SSN.<br>- Are eligible to work in the U.S.<br>- Occupy the property as a principal residence<br>• Inter vivos or "living" revocable trusts, provided the individual borrower:<br>- Remains a beneficiary of the trust.<br>- Occupies the property as a principal residence.<br>**Ineligible**<br>Any type of borrower not listed as eligible, including but not limited to:<br>• Any individual without a valid U.S. SSN.<br>• Individuals with a U.S. Individual Taxpayer Identification Number (ITIN). An ITIN is formatted like a SSN but begins with "9". No valid SSN begins with a "9".<br>• Investors, except for streamline refinance without appraisal.<br>• Foreign nationals and borrowers with diplomatic immunity.<br>• More than four (4) Borrowers to a transaction.<br>• Any individual listed on HUD's Limited Denial of Participation (LDP) list at https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp or the General Services Administration's (GSA) Excluded Party List https://www.epls.gov/ . |

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| **BROKER APPROVALS** | • Affiliated Business Relationships are allowed with these conditions:<br>(1) Broker must inform DMC of the affiliated relationship at the time of application;<br>(2) Broker must provide DMC with a photo of businesses if they are housed in the same building;<br>(3) Affiliated businesses must have separate entrances. |
| **CASH RESERVES** | • AUS loans follow DU/LP guidelines.<br>• 3 month's PITI is required on all 3-4 unit purchase transactions regardless of AUS findings. No reserves are required for all other transactions. |
| **CLOSING COSTS** | Borrowers may pay customary and reasonable closing costs, subject to these limitations:<br>• Tax service fee not allowed.<br>• Third-party fees may not be "marked up".<br>• Commitment and/or lock-in fees may only be charged when the interest rate and discount points (if any) are guaranteed to the borrower *in writing* for a minimum of 15 days. FAMC will require a copy of the lock-in agreement when this fee is charged.<br>• Fees and charges must comply with all Federal, State and local regulations and predatory lending rules.<br>• Borrower-paid closing costs may no longer be used to count as part of the borrower's required investment. |
| **CLOSING REQUIREMENTS** | • Interest credit allowed (calculated at 1/365th)<br>- Loan must fund by the 5th calendar day of the month preceding the first payment date<br>• A full 30 days of interest will be charged for the month in which the loan funds (as allowed by HUD and charged by servicers when the payoff is not received on the 1st day of the month)<br>• Proof that the previous month's payment was made within the month due. (e.g. updated payoff statement).<br>• For FHA Streamline and no-Cash-Out refinance transactions, any cash received by the borrower at closing must be incidental due to changes in the payoff and cannot exceed $500.<br>• Termite, Well and Septic Inspections/Certifications are required as noted on appraisal and/or sales agreement.<br>• A minimum of 24 months chain of title as evidenced by the title commitment satisfactory to DMC review and meeting FHA anti-flipping requirements<br>• Balance as reflected by the title commitment or credit report must be consistent with the payoff shown on the HUD-1. Non lien payoffs may not exceed $5,000.<br>• Principal curtailments are generally not allowed but may be considered on a case by case basis up to $999 |
| **CONDOS/PUDS** | • We now require a condominium borrower to obtain a "Walls In" coverage policy (commonly known as an HO-6 policy). Coverage is to include interior walls, floor coverings, fixtures, cabinetry, appliances, and improvements and betterments made to the unit's interior. The HO-6 policy must provide coverage is an amount that is no less 20% of the condominium unit's appraised value.<br>**Eligible**<br>• Condos must be FHA-approved or meet FHA guidelines for "Spot Approval." *Spot Approvals on exception, case by case and may be subject to a pricing adjustment.*<br>• *Spot Approval allowed for case dates issued must be submitted and /or locked by September 30, 2009.*<br>**Ineligible**<br>• Multiple unit condos.<br>• Leasehold condos not allowed. |
| **CREDIT HISTORY** | • Loans must meet DMC minimum credit score requirements.<br>• Purchase, rate/term loans (all types) – max 1X30 mortgage in the last 12 months regardless of AUS findings.<br>• Streamline refinance transactions with > 0 x 30 on any mortgage account within the last 12 months.<br>- The credit report for the mortgage history must be updated to include the payment made for the most recent month due.<br>• If a borrower is refinancing a privately held mortgage, the following guidelines apply:<br>- The borrower must provide evidence that 12 months of mortgage payments have been made on the current mortgage. If the account has been opened less than 12 months, verification of all payments made is required.<br>- The mortgage payments must be verified with either cancelled checks or bank statements (if the payment is automatically withdrawn from the borrower's account).<br>- Evidence must be included in the loan file that the loan being paid off is a current recorded lien against the subject property.<br>• Refinance transactions where any open debt secured by the subject property is delinquent or in arrears, not current for the month due, has been re-structured, or will be re-subordinated for less than the total amount due are not eligible.<br>• See Underwriting for loans requiring manual downgrade to "Refer" with review by a DE Underwriter, as per the FHA TOTAL Scorecard User Guide, Chapter 2, "System Overrides and Manual Downgrades", currently published as a supplement to ML 04-47. |

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| **CREDIT HISTORY** *(CONTINUED)* | **Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin):**<br>• Debts of a non-purchasing spouse must be counted in the borrower's qualifying ratios.<br>• The non-purchasing spouse's credit performance is not a consideration.<br>Refer to the Credit History and Refinance sections of this chapter for further clarification and requirements<br>**Bankruptcy**<br>• Chapter 7 – Two years must have elapsed since the date of the DISCHARGE of the bankruptcy. The borrower must also have re-established good credit.<br>• Chapter 13 – The bankruptcy must be discharged and the borrower must have re-established good credit.<br>**Previous Foreclosure / Paid Foreclosure / Current – was Foreclosure**<br>• A waiting period of three years is required and re-established acceptable credit.<br>**Short Sale, Short Payoff/Restructured Loans**<br>• Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length.<br>• Borrowers who have entered into a short refinance/restructured debt on the subject property are not eligible.<br>• Borrowers who have completed a short refinance or restructured loan and are purchasing or refinancing a property which is not the subject of the short refinance/restructured loan must have re-established credit for a minimum of three (3) years since completion on short refinance/restructure and no more than 1x30 days late on any mortgage in the past 12 months.<br>**Short Sale Restrictions**<br>• Short sell negotiator fees may be paid by the buyer only if the contract is between the buyer and short sell negotiator. If the contract is between the seller and short sell negotiator, the buyer may not pay the associated fees. If the contract is between the seller and short sell negotiator and, the seller does not have sufficient funds to pay the associated fees, they may be charged to the seller side of the HUD-1 and paid for by the real estate sales agents.<br>• Additional monies to the seller's mortgage company may not be paid by the buyer.<br>• DMC will provide new financing to borrowers with previous short sales per ML 2009-52. However the need for a new primary residence must be driven by employment relocation and the subject property must be located 100+ miles from the prior residence. |
| **CREDIT SCORES / NON- TRADITIONAL CREDIT** | **As determined by Underwriter or DU/LP, except**<br>• The indicator score is the lowest of each borrower's middle score.<br>• Borrowers with non-traditional credit are no longer acceptable. A loan considered to have non-traditional credit is when all borrowers do not have a credit score and/or are establishing a credit history through non-traditional means such as a rental history, utility payments, etc.<br>• At least one borrower qualifying for the loan must have a decisioning credit score.<br>• Minimum 640 for streamlines.<br>**FHA Purchase and Rate & Term Refinance loans now have a minimum 580 credit score. Loans with credit scores < 640 have the following guidelines:**<br>• Fico score from 580-619 will allow an LTV of 90%<br>• Fico score from 620-639 will allow an LTV of 95%<br>• No gift funds<br>• Non-occupant co-borrowers not allowed<br>• 31/43 Ratio<br>• Verifiable housing payment history – no exceptions. Institutional Verification of Rent or cancelled rent checks<br>• TOTAL Scorecard Accept<br>• No streamline refinances<br>• No cash out refinances<br>• Refinances require 1 year title seasoning, continuity of obligation & NTB (5% payment reduction) |
| **DOCUMENTATION** | • As determined by DU/LP<br>**Minimum Documentation Requirements**<br>• A signed IRS Form 4506-T must be included in all loan files where the following apply:<br>• Loan transmittal (HUD 92900-LT) replaces the MCAW<br>• Loan Application Addendum (HUD 92900-A) revised 5/2008 |
| **DOWN PAYMENT** | • Effective with case numbers assigned on or after January 1, 2009 (ML 2008-23):<br>- The borrower must make a minimum cash investment of 3.5% (Statutory Investment Requirement), based on lesser of Sales Price or Appraised Value.<br>- Closing costs paid by the borrower may no longer count towards the 3.5% cash investment.<br>• The $8,000 First-Time Homebuyer Tax Credit authorized by the Housing and Economic Recovery Act of 2008 may not be used as any credit towards minimum contribution requirements, closing costs or prepaids.<br>• *See Gift Funds section for additional direction and requirements* |
| **ESCROWS** | • Escrow waivers not allowed under any circumstances. No exceptions. |

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| **ESCROW HOLDBACKS** | Only eligible on HUD Repos or as an exception on a case by case basis with the following requirements:<br>• 2X the bid amount<br>• Maximum $3,500<br>• 2 Bids from 2 different companies.<br>• Escrow funds to be held by DMC.<br>• $250 Fee paid to DMC at closing.<br>• FHA Compliance Inspection Report required before funds will be released.<br>• Work must be completed within 7 days of funding.<br>• DMC to hold Broker check until the work has been completed. |
| **FLIPPING REQUIREMENTS** | • Any property being sold within **90 days** of the seller's acquisition date is not eligible for FHA financing, unless exempt under a recent temporary waiver which exempts from the 90-day resale restriction, those properties that are being sold by the foreclosing lender, or on their behalf by their documented subsidiary or agent. This temporary waiver applies to sales contracts signed on or before June 8, 2009.<br>• If property is being sold between **91 and 180 days** of the seller's acquisition and the sales price has increased by **100%** or more, a second FHA appraisal is required. No exceptions. The borrower may not be charged for the appraisal. Loan must be based on the lower of the two values.<br>• If property is being sold within **12 months** of the seller's acquisition and the sales price increased significantly. A second FHA appraisal may be required at the discretion of the underwriter.<br>• See ML 2008-37 for exemptions in Presidentially Declared Major Disaster Areas.<br>• HUD has issued a Waiver of Requirements regarding transactions that are considered property flips. The waiver will take effect on February 1, 2010 and is effective for one year, unless otherwise extended or withdrawn by the FHA Commissioner. DMC will allow this under programs 6231 and 6233. |
| **GEOGRAPHIC RESTRICTIONS** | • Properties may be located in the District of Columbia and any state.<br>• U.S. Territories not allowed (e.g. Puerto Rico, American Samoa, Guam, etc.)<br>• **Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin):**<br>- Debts of a non-purchasing spouse must be counted in the borrower's qualifying ratios.<br>- The non-purchasing spouse's credit performance is not a consideration<br>• High Cost loans in the state of South Carolina allow a maximum DTI of 50%<br>• Cash out Refinance is not eligible in the state of Texas.<br>• DMC will no longer fund loans in Wayne County, Michigan. |
| **GIFT FUNDS** | **Gift Donors**<br>• **Eligible:** Borrower's relative, spouse, domestic partner, or close friend with a clearly defined and documented interest in the borrower. Borrower's employer or labor union. A charitable organization that does not replenish available gift funds with seller contributions. A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers,<br>• **Ineligible:** Any person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them.<br>**"Seller-funded" Down Payment Assistance (DPA)**<br>• DMC does not underwrite or purchase loans with "seller funded" DPA's of any kind.<br>**AUS-underwritten loans**<br>• ***Gift deposited prior to closing***<br>- A gift letter and full documentation of the gift transfer is required, including:<br>i. evidence of donor's account ownership and ability to give the gift,<br>ii. copy of donor's cancelled check or bank-validated withdrawal slip, and<br>iii. Evidence of deposit into borrower's account.<br>- Donor's cash-on-hand is not an acceptable source.<br>- Gift letter must contain donor's name, address, phone, and relationship to borrower; match the exact amount of gift, state that gift is not repayable, and be signed by donor and borrower.<br>- Gifts deposited prior to closing and documented in this manner may be included in the borrower's account balance when submitting to TOTAL, but should be identified separately as gift funds on the MCAW and 1003.<br>- Excess gift funds may be used as cash reserves (1- and 2-unit properties only).<br>• ***Gift received at closing***<br>- Full gift letter required.<br>- Gift must be submitted to TOTAL as "gift funds" and *not* included in borrower's account balance.<br>- Excess gift funds may *NOT* be used as cash reserves.<br>- *By check:* Copy of cashier's check or other bank check purchased by donor, and evidence that funds used to purchase check were withdrawn from donor's own account. Donor's personal check or cash-on-hand is not acceptable. NOTE: To avoid funding delays, copies of these documents must be provided and cleared prior to docs.<br>- *By wire:* Copy of incoming wire evidencing deposit into settlement agent's account on or before the day of closing.<br>DMC to validate relationship between the borrower and the donor by a third party service. If unable to validate by this service, then legal documents will be required to validate the relationship. |

**INVESTMENT PROPERTIES**

- Streamline refinance without appraisal only.
- Term is limited to the lesser of 30 years or the unexpired term of the existing mortgage plus 12 years.
- See *REFINANCE TRANSACTIONS – STREAMLINE (without appraisal).*

**JUMBO**

- 1-Unit property with base loan amount > $417,000, Alaska and Hawaii > $625,500.
- 2-unit property with base loan amount > $533,850, Alaska and Hawaii > $800,775.
- See FHA Jumbo Addendum.

**LOAN TERM**

- 15, 20, 25 and 30 years

**LOAN-TO-VALUE**

| Type of Loan | Maximum LTV/CLTV [1] |
|---|---|
| Purchase | 96.5% [5]/96.5% [2] |
| Rate-and-Term Refinance* | 97.75%/97.75% [3] |
| FHA-to-FHA Streamline Refinance w/Appraisal* | 97.75%/97.75% [4] |
| FHA-to-FHA Streamline Refinance w/o Appraisal* | See Refinance section [4] |
| Cash-Out Refinance | 85% / 85% [3] |

1) In addition to the appropriate LTV and Maximum Mortgage Worksheet calculations, the base loan amount may not exceed the lesser of the local Statutory Mortgage Loan Limit as published by HUD, or the applicable limit set for this product (see *MAXIMUM / MINIMUM LOAN AMOUNT)*
2) CLTV may be exceeded with approved government entity second lien.
3) Refinance transactions other than streamline refinance transactions; CLTV cannot exceed the maximum allowable LTV for the transaction. New subordinate financing is not allowed. (For case numbers assigned on or after September 7, 2010)
4) Existing subordinate financing may remain in place for up to %100 maximum CLTV on 1-unit owner occupied properties. New subordinate financing is not allowed.
5) Additional circumstances due to interested party transactions may limit LTV.

**LOAN TYPE /ELIGIBLE SECTION OF THE ACT**

**Eligible**

| Section of the Act | ADP Code | Brief Description |
|---|---|---|
| **203(b)** | 703 | Fixed Rate Loan |
| **203(b)** | 796 | Temporary Buydown |
| **234(c)** | 734 | Fixed Rate Condominium |
| **234(c)** | 797 | Condo-Temporary Buydown |

**Ineligible:**

Any Section of the Act not listed above, including but not limited to:

- 203(k) Rehabilitation loan
- 238(c) Military impact area (UFMIP waived)
- Section 8 Loans
- FHA Loans to Non-profit organization borrowers
- Hope for Homeowners Program
- HUD 184 Program – Indian Reservations

**MAXIMUM/MINIMUM LOAN AMOUNT**

**General Guidelines:**

- In addition to the appropriate LTV and Maximum Mortgage Worksheet calculation, the base loan amount may not exceed the lesser of :
  (a) the local Statutory Mortgage Loan Limit as published by HUD, or
  (b) the applicable limit set for this product:
  1-unit $417,000, AK & HI $625,500
  2-unit $533,850, AK & HI $800,775
  3-unit $645,300, AK & HI $967,950
  4-unit $801,950, AK & HI $1,202,925
- UFMIP may be added to the calculated base loan amount.
- All loans must be submitted in whole dollar amounts.
- See LTV section for links to new 2009 Maximum Mortgage Worksheets

**Minimum Loan Amount:**

$50,000

**MORTGAGE INSURANCE**
*(UP-FRONT AND MONTHLY MORTGAGE INSURANCE PREMIUM)*
*(CONTINUED)*

- Mortgage insurance based on the date of case number **assignment/issuance**; not the date the case number was **ordered.**
- Calculated the UFMIP by multiplying the appropriate factor by the base amount.
- Calculate the monthly MIP by multiplying the base loan amount by the annual MIP factor divided by 12.

| Effective with case number assigned **on or after April 18, 2011** | | |
|---|---|---|
| **LOAN TERMS > 15 YEARS** | | |
| **Purchase/ Non-Streamline Refinance** | **UFMIP** | **Annual** |
| > 95% LTV | 1.00% | 1.15% |
| ≤ 95% LTV | 1.00% | 1.10% |
| **LOAN TERMS ≤ 15 YEARS** | | |
| > 90% LTV | 1.00% | 0.50% |
| ≤ 90% LTV | 1.00% | 0.25% |

| Effective with case number assigned **on or after** October 4, 2010 | | |
|---|---|---|
| **LOAN TERMS > 15 YEARS** | | |
| **Purchase/ Non-Streamline Refinance** | **UFMIP** | **Annual** |
| > 95% LTV | 1.00% | 0.90% |
| ≤ 95% LTV | 1.00% | 0.85% |
| **Streamline Refinance** | **UFMIP** | **Annual** |
| > 95% LTV | 1.00% | 0.90% |
| ≤ 95% LTV | 1.00% | 0.85% |
| **LOAN TERMS ≤ 15 YEARS** | | |
| **Purchase/ Non-Streamline Refinance** | **UFMIP** | **Annual** |
| > 90% LTV | 1.00% | 0.25% |
| ≤ 90% LTV | 1.00% | 0.00% |
| **Streamline Refinance** | **UFMIP** | **Annual** |
| > 90% LTV | 1.00% | 0.25% |
| ≤ 90% LTV | 1.00% | 0.00% |

**Years will be determined when the loan balance equals 78%

**<u>FHA UFMIP & MIP PAYMENT PROCESS</u>**

Detailed information for this process can be found on the internet at
http://www.hud.gov/offices/hsg/comp/premiums/sfpaygov.cfm

**NON-OCCUPANT CO-BORROWERS/ CO-SIGNERS**

- Allowed per FHA published guidelines.
- May not be added to meet qualifying requirements for a cash-out refinance.
- Non-occupant co-borrowers already on the loan may remain in title, but may not remain on the loan to meet qualifying requirements for a cash-out refinance.
- The max housing and debt ratio for the occupant borrower is 55%.

**NUMBER OF LOANS/ PROPERTIES**

**Number of Loans per Borrower**

- A borrower may not have more than 1 FHA loan at a time, except under situations described in 4155.1 Section 1-2 A-D.

**Number of Properties per Borrower**

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

**OCCUPANCY**

Owner-occupied primary residence only on all transactions except streamline refinance without appraisal.

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| **PROGRAMS & SPECIAL FEATURES** | **Energy Efficient Mortgage (EEM) Program** (http://www.hud.gov/offices/hsg/sfh/eem/eemhome.cfm - Click to follow link to the FHA Energy Efficient Mortgage Webpage)<br>Standard FHA guidelines apply except for the following:<br>• *DMC exception processing is required due to LTV and county loan limit issues; pricing adjustment may apply.*<br>• This program allows qualified borrowers to finance up to 100% of the eligible expense of a cost-effective "Energy-Efficient" (EE) package.<br>• Borrower does not have to qualify for the additional financing or provide additional down payment.<br>• The appraisal does not need to reflect the EE package value for either new or existing construction.<br>• Purchase and refinance transactions, including streamlines, are eligible.<br>- New and existing 1-4 family properties, including 1-unit condos, are eligible. The allowable EEM dollar amount is for the entire property and not based on a per unit basis for multiple unit properties.<br>- The EEM may be used with Sections 203(b), 234(c) Condos, and 203(h) Disaster loans.<br>- Underwriter will determine how much of the EE cost may be added to the loan amount by using the Home Energy Rating System (HERS) report and the EEM Worksheet.<br>- The amount added for the EE package cannot exceed the greater of (a) $4,000 or (b) the lesser of $8,000 or 5% of the property value.<br>- The allowable EE amount is added to the base loan amount before UFMIP.<br>- The FHA county loan limit may be exceeded by the amount added for the EE package.<br>- In the Remarks section of the MCAW, underwriter must indicate that the loan is for an EEM, list borrower qualifying ratios prior to adding the EE cost, and show the final loan amount calculations.<br>- For a streamline refinance, the borrower's P&I on the new loan including the EE package can exceed the P&I payment on the current loan, provided the estimated monthly energy savings shown on the HERS report exceeds the P&I increase.<br>- For a streamline refinance without appraisal, the Original Principal Balance substitutes for an appraised value – for the EEM calculations only. The *LTV* on a streamline refi w/o appraisal continues to be determined by the *Original Property Value*. Both of these figures must be taken from the FHA Connection Case Number Assignment or Refinance Authorization.<br>• ***Documentation, Fees, Escrow Requirements:***<br>- Home Energy Rating System (HERS) report, copy to borrower and lender.<br>- HUD-92300 Mortgagee's Assurance of Completion (prepared by DMC). 90 days allowed for completion, no extensions or exceptions. After 90 days, unused funds must *be* applied to reduce the principal balance.<br>- EE packages on new construction must be complete prior to funding (no escrows).<br>- The borrower cannot be paid for his/her own labor nor receive cash back, except for documented material costs.<br>- Fees charged to the borrower for the HERS report must be reasonable and customary for the area. These fees may be financed as part of the EE package if the eligible amount allows for inclusion.<br>If not, such fees are considered allowable closing costs.<br>- ***Underwriting:*** Submit loan amount including the EE package to the FHA Total Scorecard. An "AUS- Refer" rating for the loan amount including the EE costs is acceptable *only if* the loan receives an "AUS-Accept" rating for the loan amount prior to adding the EE costs, or if the loan otherwise qualifies for manual override approval of an AUS-Refer (see *UNDERWRITING)*. "Ineligible" ratings are acceptable if the ineligible determination is strictly due to exceeding the county loan limit by the amount of the EE package. |
| **PROPERTY ELIGIBILITY** | **Eligible**<br>• 1-4 unit attached or detached primary residence including condos and PUDs.<br>• Condos must be FHA-approved (See Condo section).<br>• HUD or VA Repo properties – *See "Appraisal Standards and Guidelines" section.*<br>**Ineligible**<br>• Any property where the seller is not the owner of record.<br>• Any property being re-sold within 90 days of the seller's acquisition date unless exempt.<br>• All non-owner occupied properties (except streamline refinance without appraisal).<br>• Properties that are not primarily residential in nature and use.<br>• Manufactured or mobile housing.<br>• Leasehold condos.<br>• Co-ops.<br>• Log homes |

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| **PROPERTY INSPECTIONS** | **<u>Termite, Well and Septic Inspections</u>**<br>• Properties ***under one year old*** require mandatory inspection, treatment and testing, even if previously occupied.<br>• For existing properties ***over one year old,*** inspection and/or testing is only required if:<br>  - The appraisal indicates there may be a problem or that problems are common in the area.<br>  - Mandated by the state or local jurisdiction (see below).<br>  - Required by the sales contract.<br>  - A water purification system is present. If the water supply does not test safe without the purification system, then the requirements must be met.<br>  - The property has been vacant for more than 30 days (applies to septic systems only)<br>• Wells and Other Water Systems: <u>FHA Single Family Reference Guide</u> Ch 1, Pg 1-21<br>• Septic Systems: <u>FHA Single Family Reference Guide</u> Ch 1, Pg 1-20<br>**State and Local Requirements**<br>• DMC will generally rely on the appraiser and Realtor (via the sales contract) for notification of mandatory state or local inspections. |
| **RATIOS** | • Qualifying ratios are 31% / 43%, unless there are significant compensating factors or an AUS approval is received.<br>• Max DTI is 50%<br>• When a non-occupant co-borrower is present and as allowed by DU, LP or TOTAL Scorecard – whichever is applicable – the occupant borrower's housing ratio may be as high as 55%. There is no limit to the occupant borrower's total expense ratio when the total expense ratio of all borrowers combined is less than or equal to 50% and the loan receives an AUS approval. |
| **REFINANCE TRANSACTIONS** | **General Guidelines**<br>• See LTV section for links to new 2009 Maximum Mortgage Worksheets.<br>• Payoff statement must be included in the loan file with submission.<br>• Refinance transactions where any open debt secured by the subject property is delinquent or in arrear, not current for the month due, has been restructured, or will be re-subordinated for less than the total amount due are not eligible.<br>• Lenders are expected to exercise sound judgment and due diligence in the underwriting of loans to be insured by FHA. In order to comply with HUD's directive, refinance transactions should "make sense" and be in the borrower's best interest.<br>• In states with predatory lending laws, the state-specific refinance or "Tangible Net Benefit" worksheet will supersede guidelines.<br>• Principal reductions are not allowed in Texas.<br>**Cash Out Refinance Transactions:**<br>• Allowed<br>• Maximum LTV is based on Length of Ownership:<br>  - <u>12 Months or More</u>: The subject property must have been owned by the borrower as his or her principal residence for at least 12 months preceding the date of the loan application in order to obtain the maximum 85% of the appraiser's estimate of value.<br>  - <u>Less than 12 Months</u>: If the subject property has been owned less than 12 months preceding the date of the loan application as the borrower's principal residence, the mortgage amount is limited to the lesser of 85% of the sales price of the property when acquired OR 85% of the current appraised value.<br>    - A sales price, however, need not be considered if the property was acquired as the result of inheritance and is or will become the heir's principal residence.<br>• Owner-occupied primary residence only<br>• Not allowed in the state of Texas<br>• New simultaneous subordinate liens not allowed.<br>• Properties listed for sale within the last 6 months are not eligible for cash out refinances.<br>**Rate/Term Refinance Transactions:**<br>• Allowed.<br>• Owner-occupied primary residence only.<br>• Cash back at closing limited to $500, ($0 in Texas), and must be due to changes in the payoff and/or closing costs and prepaids. **At time of origination and loan approval, the 1003, GFE and Loan Transmittal must show no cash back.** (ML 05-43)<br>• No holding period but acquisition cost must be considered if owned < 1 year and not already FHA-insured (see *MAXIMUM LOAN AMOUNT*).<br>• Existing subordinate financing may remain in place provided the CLTV does not exceed the maximum allowable LTV for the transaction and borrower qualifies with all payments counted.<br>• No new subordinate financing is allowed on any refinance transaction.<br>• When paying off subordinate liens, if any portion of the funds in excess of $1000 on an existing equity line of credit was advanced within the past 12 months and was not used for repairs or rehabilitation of the property, the line of credit is not eligible to be paid off in the new mortgage unless the new transaction will be treated as a Cash-Out refinance (ML 2008-40). |

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<td>REFINANCE TRANSACTIONS<br>(CONTINUED)</td>
<td>Streamline Refinance Transactions

- Prohibited in some states. See *GEOGRAPHIC RESTRICTIONS*.
- Must meet minimum credit score requirements (see *CREDIT SCORES*).
- Applicable FICO-based price adjustments will apply.
- 12-month mortgage history reported from all 3 repositories.
- Streamline refinances must be current and the previous payment history can not contain a 30-day late or greater payment in the most recent 12 months. The following documentation is required:
  - Evidence the existing loan is current.
  - If the loan is seasoned 12 months or more, evidence of no 30-day late payments in the most recent 12 months.
- Full credit reports are required.
- Owner-occupied primary residence only except streamline refinance without appraisal
- Cash back at closing limited to $500, ($0 in Texas), and must be due to changes in the payoff and/or closing costs and prepaids. **At time of origination and loan approval, the 1003, GFE and MCAW must show no cash back.** (ML 05-43)
- Streamline refinance without appraisal:
  - Term of the new mortgage is the lesser of 30 years or the un-expired term of the existing mortgage plus 12 years. (4155.1 REV-5 Par 1-12-A).
  - Use the “Original Principal Balance” from the Refinance Authorization screen in the FHA Connection. This will reflect the true loan amount after any principal reductions.
  - The maximum base loan amount is the lower of these calculations:
  - *Original Loan Amount:* The “Original Mortgage Amount” from the Refinance Authorization in the FHA Connection (which includes any financed UFMIP), or
  - *Existing Debt:* The outstanding principal balance of the existing FHA-insured first lien, plus closing costs, prepaid expenses, discount points, minus any refund of UFMIP.
  - For Truth in Lending Disclosure purposes, calculate the LTV by using the “Original Property Value” from the Refinance Authorization in the FHA Connection.
- Any streamline refinance of a 30-year mortgage on a principal residence may be refinanced to a shorter term mortgage; however, the new monthly principal and interest may not increase more than 20%. (ML 05-43)
- Fixed-to-Fixed streamline refinances must lower the monthly P&I and/or decrease the term of the mortgage.
- A Hybrid ARM may be streamline refinanced to a fixed rate mortgage, with or without appraisal, provided that the payment will not increase more than 20% and all mortgage payments have been made within the month due for at least the last 12 months or the period the mortgage has been in force, if shorter. (ML 05-43)
- A holding period of six months applies when: (1) the borrower obtained the loan via non-qualifying assumption; or (2) when a borrower is deleted due to devise or descent of law (e.g., divorce, death, etc.) and a quit-claim of interest has been executed. Full credit qualifying is required if held less than six months and/or if due-on-sale clause is triggered. (4155.1 REV-5 Par 1-12-C)
  - FHA Connection (which includes any financed UFMIP), or
  - *Existing Debt:* The outstanding principal balance of the existing FHA-insured first lien, plus closing costs, prepaid expenses, discount points, minus any refund of UFMIP.
  - For Truth in Lending Disclosure purposes, calculate the LTV by using the “Original Property Value” from the Refinance Authorization in the FHA Connection.
- Any streamline refinance of a 30-year mortgage on a principal residence may be refinanced to a shorter term mortgage; however, the new monthly principal and interest may not increase more than 20%. (ML 05-43)
- A holding period of six months applies when: (1) the borrower obtained the loan via non-qualifying assumption; or (2) when a borrower is deleted due to devise or descent of law (e.g., divorce, death, etc.) and a quit-claim of interest has been executed. Full credit qualifying is required if held less than six months and/or if due-on-sale clause is triggered. (4155.1 REV-5 Par 1-12-C)
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<td>REFINANCE TRANSACTIONS – BENEFIT TO BORROWER</td>
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- Lenders are expected to exercise sound judgment and due diligence in the underwriting of loans to be insured by FHA. In order to comply with HUD’s directive, refinance transactions should “make sense” and be in t he borrower’s best interest.
- In states with predatory lending laws, the state-specific refinance or “Tangible Net Benefit” worksheet will supersede these guidelines, if they are more conservative. See the FAMC website for state disclosures and worksheets.
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| **REFINANCE TRANSACTIONS – BENEFIT TO BORROWER** *(CONTINUED)* | **Streamline Refinances:**<br>• The new mortgage must provide a net tangible benefit for the borrower by meeting the following parameters (ML 09-32)<br>- When refinancing from a fixed rate to a fixed rate or an ARM to an ARM, the total PITI payment (including monthly/annual MIP) must be reduced 5%.<br>- When refinancing from an ARM to a fixed rate, the new fixed rate may not be more than 2% above the current rate of the ARM.<br>- A Hybrid ARM may be streamline refinanced to a fixed rate mortgage, with or without appraisal, provided that the payment will not increase more than 20%.<br>- Reducing the term of the mortgage.<br>- Term reduction refinance transactions are not eligible for streamline documentation and must be underwritten and closed as a rate/term refinance.<br>**Rate/Term Refinance**<br>• FAMC requires that, unless the new loan is refinancing ARM-to-fixed, reducing the term, or providing a cash-out benefit to the borrower, then FHA refinance transaction should generally meet at least 2 of the following criteria, or provide an acceptable alternative benefit to borrower.<br>- Borrower's payment reduced by at least 5% or $50, whichever is less.<br>- Borrower's interest rate reduced at least 1%.<br>- Closing costs (not including prepaids) recaptured through the monthly PITI savings in 5 years or less. |
| **SUBORDINATE FINANCING** | **Purchase Transactions**<br>• Secondary financing includes any financing that creates a subordinate lien against the subject property, even if it is a "soft", "silent", or "forgivable" second.<br>• Borrower must be qualified with any required payment unless repayment is deferred at least three years. (ML 07-11)<br>• Secondary financing for the borrower's required investment may only be provided by a valid city, county, state or Federal governmental agency, or a HUD-approved non-profit that is also considered an instrumentality of government. FHLB silent or soft seconds and grants are considered under instrumentality of government.<br>• Additionally, the actual lien must be held by and the Note must be payable to:<br>- The governmental agency or HUD-approved non-profit that provided the funds, or,<br>- Another approved governmental agency or HUD-approved non-profit appointed as Agent for the entity that provided the funds.<br>• In other words, no entity that is not either a valid governmental agency or a HUD-approved non-profit may be involved in the providing or lending of funds for financing that will subordinate to an FHA loan.<br>• Underwriter must examine a sample of the note and deed to verify that the allowable governmental agency or the HUD-approved non-profit is the *actual lien holder.*<br>• HUD-approved non-profits that are not also considered an instrumentality of government may provide secondary financing for closing cost and prepaids assistance *only*.<br>• The borrower must make a 3.5% cash investment and the combined 1st and 2nd liens may not exceed the FHA statutory limit.<br>• Secondary financing that requires a special designated servicer for the first lien or imposes any servicing or resale restrictions on the first lien is not allowed.<br>• No "Bond" Programs.<br>• Must meet all additional requirements for secondary financing as stated in HUD Handbook 4155.1 REV-5, Par 1-13-A and -B.<br>• May be subject to a pricing adjustment - contact the Pricing Desk.<br>• Other secondary financing providers may be allowed on an exception basis subject to additional LTV/CLTV restrictions and statutory loan limits as stated in the 4155.1 REV-5, Par 1-13-C.<br>**Refinance Transactions**<br>• Existing subordinate financing that will be re-structured or re-subordinated for less than the total amount due is not eligible for re-subordination on a new FHA refinance transaction.<br>• *See REFINANCE TRANSACTIONS* for additional rules applicable to refinance transactions. |
| **SELLER CONTRIBUTION** | • Property seller contributions must not exceed 6% of the sales price.<br>• Included in the 6% limitation is the payment of the UFMIP. |
| **TEMPORARY BUYDOWNS** | • Allowed on purchases only<br>• 2-1 only<br>• No buy down on 15-year loans |

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| **UNDERWRITING** | **Brokers are responsible for complying with all applicable FHA/HUD regulations as further modified by the guidelines within this product description.**<br>• ***ALL*** loan files must include an IRS Form 4506T executed by each borrower at the time of closing.<br>**Automated Underwriting System (AUS)**<br>• All FHA loans must be submitted through DU or LP.<br>**General Underwriting Information**<br>• Case numbers are now only valid for 6 months.<br>• ***Real estate commission*** that is in excess of 8% must be deducted from the sales price/appraised value LTV calculation when determining maximum LTV.<br>• ***Rental income*** supported by a lease with a family member or other interested party is not acceptable.<br>• ***Conversion of Principal Residence to Investment Property:*** Rental income on the property being vacated may be used, after reducing by the appropriate Vacancy Factor, only under the following circumstances. The following guidance applies solely to the conversion of a primary residence to an investment property is not applicable to existing rental properties disclosed and confirmed by tax returns (Schedule E of form IRS 1040). See *ML 08-25* for further details.<br>• **Relocations:** The homebuyer is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance. A properly executed lease agreement of at least one year's duration is required from the date the loan closes, along with the receipt of a security deposit from the tenant and proof of deposit into the borrowers account.<br>• **Sufficient Equity in Vacated Property:** The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (less 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.<br>• If the borrower's current residence is secured by an FHA mortgage, additional criteria will apply per Handbook 4155.1 REV-5, paragraph 1-2.<br>• A borrower is now allowed to purchase a new primary residence when their departure residence is underwater if all of the following criteria are met:<br>  - The departure residence is being rented. A bona fide lease agreement must be provided. Just like in other situations, a copy of the renter's photo ID and 1st month's rent or security deposit check must be provided.<br>  - An appraisal OR AVM is required to determine the amount of negative equity. Additionally, a comparable rent schedule is required to establish the market rents.<br>  - The maximum amount of negative equity is 150% of the current value OR $100,000, whichever is less.<br>  - The borrower must qualify with both payments.<br>  - 6 months of PITI for both properties is required to be in reserves.<br>• The existing mortgage on the departure residence must be fully amortizing. No Interest Only or Negatively Amortized loans allowed.<br>**Job Stability**<br>• Current employment must be equal to or greater than 90 days.<br>• Cumulative gap in employment must be no more than 60 days during the past 2 years - for more than 2 jobs - and 90 days gap will be allowed if there have only been 2 employers in 2 years.<br>• Only 4 total jobs are allowed during the past 2 years, without an exception request approved.<br>**FHA Streamlines**<br>• Current employment information is required on the loan application.<br>• Self employed borrowers must provide a CPA Letter or Business license.<br>• For retired borrowers or borrowers receiving social security we will accept a letter of explanation.<br>• A verbal VOE will be performed prior to the loan closing and at funding.<br>• If the borrower(s) have been in the subject property for 24+ months AND have no mortgage lates (subject property), then we will not consider unrelated mortgage lates (other properties) in underwriting.<br>• If the borrower(s) have been in the subject property for less than 24 months and/or have any mortgage lates (subject property), we will consider unrelated mortgage lates (other properties) in underwriting. Having worse than a 60 day unrelated mortgage late would disqualify the borrower(s).<br>**Tax Transcripts**<br>• As part of Direct Mortgage's firm commitment to quality, it is necessary for us to execute form 4506-T on ALL loans, including salaried borrowers and wage earners. To avoid unnecessary delays in the processing of your loans, please make sure form 4506-T is uploaded into Scanned Images at the time of submission. Form 4506-T must be signed and dated within the last 60 days.<br>• Tax transcripts are required for the current year if the tax return income is used to qualify (i.e.; self employed borrowers, dividend income, etc). Tax extensions are not allowed. A filed tax extension is okay if a wage earner.<br>**Broker Compensation**<br>• Max Broker Compensation is 4% of the loan amount. When the broker compensation exceeds 2.5% management approval is required and a second appraisal may be required.<br>• When the Real Estate Broker Compensation exceeds 6.5% management approval is required and a second appraisal may be required. |

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| **UNDERWRITING**<br>*(CONTINUED)* | **Departure Residences -** Policy regarding departure residences when they are mobile homes.<br>• Whether the borrower owns the land or pays lot rent, rental income may never be considered when the departure residence is a mobile home.<br>• If the borrower is moving out of a mobile home and owns the land, an appraisal or AVM must be provided to verify that they are not upside down in value and mortgage.<br>• If the borrower is moving out of a mobile home and pays lot rent, no appraisal or AVM is required. However, we must verify the amount of lot rent and hold it against them as a net rental loss.<br>**Additional Requirements**<br>• Repair escrows are only allowed on program 6199.<br>• All NAL and Identity-of-Interest transactions where buyer and seller are related will require a copy of the seller's payoff and mortgage history.<br>• Whenever a non-occupant co-borrower is present, the occupant borrower's housing ratio cannot exceed 55%.<br>• On a cash out refinance the borrower must have made at least 6 payments. Mortgages with less than 6 months of payment history are not eligible for a cash out refinance.<br>• When paying off a land contract the loan must be treated as a cash out refinance.<br>**Debts paid off at (or prior to) closing**:<br>• Revolving and installment debt paid off prior to the date of the loan application and credit report does not need to be included in the debt to income ratios. However, funds used to pay these items may need to be sourced and seasoned. Here is our policy regarding debts paid after the date of the loan application:<br>a) Purchase & Rate/Term Loans:<br>i) Revolving debts may not be paid off or paid down in order to qualify.<br>ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. A borrower may not use gifts funds to pay off an installment loan in order to qualify.<br>b) Cash-out Loans:<br>i) Revolving debts may be paid off in order to qualify, as long as they are paid through closing using loan proceeds.<br>ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. They may be paid off with borrower funds or loan proceeds. A borrower may not use gift funds to pay off an installment loan in order to qualify.<br>**Self Employed Documentation Requirements**<br>• Self employed borrowers will need to provide tax returns on April 16, 2010. January 1, 2010 through April 15, 2010, financial statements (profit/loss & balance sheet) along with Oct – Dec 2009 business bank statements will be required.<br>**Non-Arms Length and Identity-of-Interest**<br>• Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the occupancy type is second Home or Investment.<br>• Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the seller has entered into a short sell agreement with the existing lien holder or when a bank is the seller and the buyer is related to the previous owner.<br>• Non-Arms Length and Identity-of-Interest transactions ARE allowed – on a case by case basis for primary homes. DMC does not allow "bailouts."<br>**Properties previously listed for sale**<br>• DMC allows financing on properties recently listed for sale. However, the subject property listing must be removed, withdrawn or cancelled at least 1 day prior to the date of the loan application.<br>• Cash-out loans are limited to 70% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application.<br>• Rate/term refinance loans are limited to 90% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application. |