



FHA Underwriting Changes

Effective for Case Numbers Assigned on or After September 14, 2015

Topic	Current FHA Guideline	New FHA Guideline
Assets		
Gift Funds - Documenting Transfer	The current policy is not clear about requiring the donor's bank statement in all instances.	Requires the donor's bank statement showing withdrawal of funds, regardless of how funds were transferred.
Earnest Money	Document source of funds if amount exceeds 2% of the sales price or appears excessive based on the borrower's savings history.	Document source of funds if amount exceeds 1% of the sales price or appears excessive based on the borrower's savings history.
Large Deposit Definition	<ul style="list-style-type: none"> • Manual Underwriting: No clear definition • TOTAL Scorecard: Obtain an explanation and documentation for any recent large deposits in excess of 2% of the property's sales price. The lender must verify that any recent debts were not incurred to obtain part or all of the required cash investment on the property being purchased. 	Manual Underwriting and TOTAL Scorecard: For recently opened accounts and recent individual deposits of more than 1% of the adjusted value (lesser of purchase price minus inducements or the appraised value) the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that no debts were incurred to obtain part, or all, of the minimum required investment.
Joint Funds Access	<ul style="list-style-type: none"> • Manual Underwriting: No guidance • TOTAL Scorecard: If the borrower does not hold the deposit account solely, all non-borrowing parties on the account must provide a written statement that the Borrower has full access and use of the funds. 	Manual Underwriting and TOTAL Scorecard: If the borrower does not hold the deposit account solely, all non-borrowing parties on the account must provide a written statement that the Borrower has full access and use of the funds.
Retirement Accounts	<ul style="list-style-type: none"> • Most recent account statement • Evidence of liquidation is not required unless the lender is using more than 60%. 	<ul style="list-style-type: none"> • Most recent monthly or quarterly account statement • Use 60% and deduct existing loans unless there is "conclusive" evidence that a higher percentage may be withdrawn. • Evidence of liquidation is required if any portion is required for funds to close.
Interested Party Credits/Costs Paid Outside Closing/Minimum Required Investment (MRI)	No guidance.	On the HUD 1 settlement statement, the lender may apply interested party credits to the closing costs and prepaid items including any items paid outside closing (POC). The refund of the borrower's POC may be used toward the borrower's (MRI) if the lender documents that the POCs were paid with the borrower's own funds.

Topic	Current FHA Guideline	New FHA Guideline
Assets (Cont)		
Real Estate Commission - Proof of License	Not required.	When commission income is used as funds to close through earnings or gift, lender must document borrower or family member real estate license and entitlement to commission from purchase.
Credit		
Satisfactory Credit	Borrower has acceptable credit if: <ul style="list-style-type: none"> • No late housing or installment debt; and • No major derogatory credit on revolving accounts. 	Manual Underwrites - A lender may approve a borrower if: <ul style="list-style-type: none"> • Acceptable payment history; and • No major derogatory credit on revolving accounts in the last 12 months. "Acceptable payment history" means: <ul style="list-style-type: none"> • The borrower made all housing and installment debt payments on time for the previous 12 months; and • There are no more than two 30-day late mortgage or installment payments in the last 24 months. "Major derogatory credit" means: <ul style="list-style-type: none"> • Payments made more than 90 days after the due date; or • 3 or more payments made more than 60 days after the due date.
Derogatory Event Wait Period Definition	No definition.	Defines as from event date to the new loan case number assignment date. Date of event is date of recorded title transfer.
Non-Traditional Mortgage Credit Report (NTMCR)	Required when using alternative credit unless NTMCR is not available.	NTMCR is not required. For borrowers without a credit score either: <ul style="list-style-type: none"> • Obtain a NTMCR; or • Develop a credit history using alternative references subject to documentation and verification guidelines; including; <ul style="list-style-type: none"> ◦ Review of public records to verify the provider's existence, ◦ Verification of credit information using published addresses and telephone numbers, and ◦ Retention of the most recent 12 months of canceled checks or equivalent proof of payment.

Topic	Current FHA Guideline	New FHA Guideline
Credit (Cont)		
Non-Traditional Mortgage Credit - Authorized User Account as Credit Reference	No guidance.	A documented 12 month history of payments on an account where the borrower is an authorized user is an acceptable credit reference.
Medical Collections	Can be disregarded.	Specifically designated as an obligation not considered debt and can be disregarded.
Documents/Processing		
Handling of Documents	Documents can't be transmitted from or through equipment of interested third parties.	Documents can't be transmitted from or through equipment of interested third parties or unknown parties.
Application Signatures	All borrowers must sign either the initial or final 1003.	All borrower must sign both the initial and final 1003.
Borrower's Authorization Form	May obtain.	Must obtain.
Disclosures	No consolidated list of required disclosures.	Single list of required disclosures.
CAIVRS	Delinquent federal debt makes borrower ineligible.	VERIFIED delinquent federal debt makes the borrower ineligible.
Federal Tax Liens	Tax liens may remain unpaid if the lien holder subordinates the tax lien to the FHA-insured mortgage. Note: if any regular payments are to be made, they must be included in the qualifying ratios.	Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement and has made at least 3 months of timely payments. Payments may not be prepaid.
Excluded Parties List	Check all parties to the transaction.	Check all parties to the transaction including processor, underwriter, appraiser and 203(k) consultant.
Re-Verification of Employment	No re-verification requirement.	Required within 10 days of loan note date.
Case Number Transfer Timeline	No guidance.	Immediately upon borrower request.
Appraisal Transfer Timeline	No guidance.	Within 5 days of the borrower's request.
Fees		
Tax Service Fee	Prohibited	Not Mentioned
Prepays	Prepaid items include "other similar fees and charges" and the lender must use at least 15 days of per diem interest when estimating prepaids on the GFE.	Prepaid items include flood and hazard insurance premiums, MIPs, real estate taxes and per diem interest. There is no longer a 15 day interest requirement when estimating.

Topic	Current FHA Guideline	New FHA Guideline
Fees (Cont)		
Per Diem Interest and Interest Credits	<p>Per Diem Interest - May collect from disbursement date to the date amortization begins.</p> <p>Interest Credit - Lender may begin amortization up to 7 days prior to the disbursement date and provide an interest credit. Per diem interest credit may not result in cash back to the borrower.</p> <p>Calculation - Per diem must be computed using 1/365th of annual rate.</p>	<p>Per Diem Interest - May collect from disbursement date to the date amortization begins.</p> <p>Interest Credit - Lender may begin amortization up to 7 days prior to the disbursement date and provide an interest credit. Per diem interest credit may not be used to meet the borrower's MRI.</p> <p>Calculation - Per diem must be computed using 1/365th of annual rate.</p>
Glossary - Definitions		
Family Member	<p>Identity of Interest Transactions</p> <p>The definition of a family member includes:</p> <ul style="list-style-type: none"> • Child, parent or grandparent • Spouse • Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption <ul style="list-style-type: none"> • Foster child • Brother, stepbrother • Sister, stepsister • Uncle, aunt <p>Note: A child is defined as a son, stepson, daughter or stepdaughter. A parent or grandparent includes a stepparent/grandparent or foster parent/grandparent.</p> <p>All Other Transactions</p> <p>The definition of a family member includes:</p> <ul style="list-style-type: none"> • Child, parent or grandparent • Spouse • Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption <ul style="list-style-type: none"> • Foster child <p>Note: A child is defined as a son, stepson, daughter or stepdaughter.</p>	<p>Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:</p> <ul style="list-style-type: none"> • Child, parent or grandparent <ul style="list-style-type: none"> ◦ A child is defined as a son, stepson, daughter or stepdaughter. A parent or grandparent includes a stepparent/grandparent or a foster parent/grandparent. • Spouse or domestic partner • Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption <ul style="list-style-type: none"> • Foster child • Brother, stepbrother • Sister, stepsister • Uncle, aunt • Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.

Topic	Current FHA Guideline	New FHA Guideline
Income/Employment		
Part-Time Employment Income	Underwriter discretion allowed when received less than 2 years and likely to continue.	Two years of uninterrupted part-time income is required. <ul style="list-style-type: none"> • Average the income over the prior 2 years; or • Use a 12-month average of hours at the current pay rate if the lender documents an increase in pay rate.
Self-Employed - Declining Income	<ul style="list-style-type: none"> • The lender must establish the borrower's earnings trend from the prior two years using tax returns. • Stable or increasing annual earnings are acceptable. • Businesses showing a significant decline in income are not acceptable, even if the current income and ratios meet FHA guidelines. • If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate income. 	<ul style="list-style-type: none"> • Income from a business with a greater than 20% decline in income over the analysis period is not acceptable. <ul style="list-style-type: none"> ◦ If using an AUS, the lender must downgrade to manual underwriting. • If there has been a 20% or greater decline, the income is still deemed stable if: <ul style="list-style-type: none"> ◦ If the reduction was the result of documented extenuating circumstances, ◦ The income has been stable or increasing for at least 12 months, and ◦ The borrower qualifies using the reduced income.
Frequent Job Changes	Okay if borrower continues to advance in income or benefits.	<p>If the borrower has changed jobs more than 3 times in the prior 12 months, or has changed lines of work, the lender must obtain:</p> <ul style="list-style-type: none"> • Transcripts of training and education demonstrating qualification for the new position; or • Employment documentation evidencing continual increases in income and/or benefits.
Hourly Earnings Calculation	No guidance.	<ul style="list-style-type: none"> • If the hours do not vary, use the hourly rate. • If the hours vary, use a two-year average. • If the hours vary and there is a documented increase in pay rate, use a 12 month average of hours at the current pay rate.
Overtime and Bonus Income Calculation	<ul style="list-style-type: none"> • General Rule - Overtime or bonus income must have been received for the past 2 years. • Exception - Periods of less than 2 years may be acceptable if the lender can justify and document in writing why its use is acceptable. • How to calculate the income: <ul style="list-style-type: none"> ◦ Average over 2 years. ◦ Average over more than 2 years if the income varies significantly from year to year. 	<ul style="list-style-type: none"> • General Rule - Overtime or bonus income must have been received for the past 2 years. • Exception - Periods between 1 and 2 years may be acceptable if consistently earned for at least 1 year and likely to continue. • How to calculate the income: <ul style="list-style-type: none"> ◦ Average over 2 years. ◦ If the income from the current year decreases by 20% or more from the prior year, use the current year's income.

Topic	Current FHA Guideline	New FHA Guideline
Income/Employment (Cont)		
Commission Income	<ul style="list-style-type: none"> • Earned for 1-2 years okay if likely to continue. • Earned for less than 1 year okay if: <ul style="list-style-type: none"> ◦ Pay change from salary to commission for similar position with the same employer; or ◦ Borrower would qualify if commission income was not used. • Calculate using two year average. <ul style="list-style-type: none"> ◦ If income has decreased compensating factors are required. 	<ul style="list-style-type: none"> • Earned for at least 1 year in same or similar line of work and likely to continue. • Calculate by subtracting unreimbursed business expenses from the lesser of: <ul style="list-style-type: none"> ◦ The average net commission earned over the past 2 years (or however long it's been earned); and ◦ The average income earned over the prior 1 year.
Voluntary Alimony or Child Support Payments	No guidance.	Allowed If using a voluntary payment agreement, the lender: <ul style="list-style-type: none"> • Obtains 12 months canceled checks, deposit slips or tax returns; • If there is evidence of receipt for the most recent 6 months, may use the current payment to calculate income, and • If there are not 6 months of consistent payments, may average the income received over the prior 2 years, or less if the income has not been received that long.
Rental Income on Retained Primary Residence	Rental income may be counted when relocating outside or reasonable commute distance for job and borrower has 25% equity.	<ul style="list-style-type: none"> • Rental income may be counted when relocating and new residence is located at least 100 miles from previous residence. • If no history of rental income since the last tax filing, borrower must have 25% equity.
Non-Taxable Income	Gross up using tax rate evidenced on last return. If borrower did not file a return use tax rate of 25%.	Gross up using greater of 15% or actual tax rate. If borrower did not file a return use tax rate of 15%.
Pension Income Calculation	No guidance.	<ul style="list-style-type: none"> • Use current amount if consistent. • Fluctuating amounts require use of a 2 year (or time of receipt, if less) average.
401(k) Income Calculation	No guidance.	<ul style="list-style-type: none"> • Use current amount if consistent. • Fluctuating amounts require use of a 2 year (or time of receipt, if less) average.
Gaps in Employment	<ul style="list-style-type: none"> • Manual underwriting: Gaps of more than 1 month must be explained. • TOTAL Scorecard: Gaps of less than 6 months require no explanation. 	Manual underwriting and TOTAL Scorecard: Gaps of less than 6 months require no explanation. For Borrowers with gaps of 6 months or more, income may be included if: <ul style="list-style-type: none"> • The Borrower has been employed in current job for at least 6 months at time of case assignment; and • A two year work history prior to the absence from employment using standard or alternative employment verification.

Topic	Current FHA Guideline	New FHA Guideline
Income/Employment (Cont)		
Rental Income on Property Being Vacated	<ul style="list-style-type: none"> • Due to Relocation: executed 1 year lease agreement and evidence of security deposit • Sufficient Equity: Must have 25% equity as verified by appraisal or comparing unpaid principal balance to original sales price of the property. Appraisal may be an exterior only. 	<ul style="list-style-type: none"> • Full appraisal, including 1007 and 216 showing fair market rent must be obtained. Appraiser does not have to be FHA approved. • Minimum 25% equity in vacated property. • Executed 1 year lease agreement, commencing after the closing. • Evidence of payment of the security deposit or first month's rent of lease agreement. • Evidence that the Borrower is relocating to an area more than 100 miles from the current principal residence.
Rental Income on Other Real Estate with Limited/No History	<ul style="list-style-type: none"> • Due to Relocation: executed 1 year lease agreement and evidence of security deposit • Sufficient Equity: Must have 25% equity as verified by appraisal or comparing unpaid principal balance to original sales price of the property. Appraisal may be an exterior only. 	<ul style="list-style-type: none"> • Full appraisal, including 1007 and 216 showing fair market rent must be obtained. Appraiser does not have to be FHA approved. • Minimum 25% equity in investment property required. • Executed 1 year lease agreement. • Properties with less than 2 years rental income history require the date of acquisition be documented by providing the deed, settlement statement or other legal document. • Must use 75% of the lesser of the fair market rent reported by the appraiser or the rent reflected in the lease agreement.
Rental Income on Other Real Estate with History or Rental Income	<ul style="list-style-type: none"> • Obtain most recent 2 years tax returns including Schedule E. 	<ul style="list-style-type: none"> • Obtain most recent 2 years tax returns including Schedule E • Properties with less than 2 years rental income history require the date of acquisition be documented by providing the deed, settlement statement or other legal document. • Rental income must be annualized for properties owned less than two years. • Negative net Rental Income must be added as a debt/liability.

Topic	Current FHA Guideline	New FHA Guideline
Income/Employment (Cont)		
Temporary Income Reduction	No guidance.	<p>For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, lenders may consider the borrower's current income as effective income, if it can verify and document that:</p> <ul style="list-style-type: none"> • The Borrower intends to return to work; • The Borrower has the right to return to work; and • The Borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance. <p>For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the mortgagee may use the Borrower's pre-leave income.</p> <p>For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset reserves, above and beyond any required reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.</p>
Projected/Expected Income	Projected income allowed when Borrower will start a new job within 60 days of closing and assets or other income is verified to cover all debts until receipt of the new income.	Expected income (replaced Projected Income guideline) refers to income from cost-of-living adjustments, performance raises, a new job or retirement that will be received within 60 days of closing.
Frequent Changes In Employment	No guidance.	<p>Frequent changes are defined as a borrower changing jobs more than 3 times in previous 12 month period, or changed line of work. Mortgagee must obtain:</p> <ul style="list-style-type: none"> • Transcripts of training and education demonstrating qualification for a new position; or • Employment documentation evidencing continual increases in income and/or benefits.
Insurance		
Flood Insurance	No calculation details for coverage requirements.	<p>Amount at least equal to the lesser of either:</p> <ul style="list-style-type: none"> • The outstanding balance of the mortgage, less estimated land costs; <p>or</p> <ul style="list-style-type: none"> • The maximum amount of the NFIP insurance available with response to the property improvements.

Topic	Current FHA Guideline	New FHA Guideline
Liabilities		
Deferred Loans	Loans deferred more than 12 months from closing do not have to be counted in the ratios. (No mention of loans in forbearance)	<p>All deferred obligations (including loans in forbearance), regardless of when they will commence, must be included in the qualifying ratios.</p> <p>The lender must obtain evidence of:</p> <ul style="list-style-type: none"> • The deferral; • The outstanding balance; • The terms of liability; and • The anticipated monthly payment. <p>For installment debt, the lender must use:</p> <ul style="list-style-type: none"> • The actual monthly payment, or • If the actual payment is unknown <ul style="list-style-type: none"> ◦ The terms of the debt; or ◦ 5% of the outstanding balance. <p>For a student loan, the lender must use:</p> <ul style="list-style-type: none"> • The actual monthly payment, or • If the actual monthly payment is zero or is not available, use 2% of the outstanding balance.
Installment Debt < 10 Months Payments	<ul style="list-style-type: none"> • TOTAL Scorecard: May be excluded from ratios. • Manual Underwriting: May be excluded from ratios if debt will not affect ability to pay mortgage. 	<p>Manual Underwriting and TOTAL Scorecard: May be excluded from the ratios only if:</p> <ul style="list-style-type: none"> • They have remaining cumulative payments of less than or equal to 5% of the Borrower's gross monthly income, and • The Borrower may not pay the debts down to achieve this percentage. <p>All or nothing guideline. Lender may not pick and choose which debts to exclude to stay under the 5%.</p>
Alimony and Child Support	May be treated as reduction from gross income or as a monthly obligation	<ul style="list-style-type: none"> • May be treated either as reduction from gross income or as a monthly obligation. • Obtain pay stubs covering at least 28 consecutive days to verify whether the borrower is subject to any order of garnishment. • Calculate the monthly obligation from the greater of: <ul style="list-style-type: none"> ◦ The amount shown on the most recent decree or agreement establishing the obligation, or ◦ The monthly amount of the garnishment
Revolving Accounts - Monthly Payment Calc	<ul style="list-style-type: none"> • Greater of 5% of the balance or \$10; or • The actual monthly payment 	<ul style="list-style-type: none"> • 5% of the outstanding balance; or • The payment shown on the credit report or statement

Topic	Current FHA Guideline	New FHA Guideline
Liabilities (Cont)		
30 Day Accounts (Accounts requiring payment in full each month)	No guidance.	<ul style="list-style-type: none"> • Not included in the ratios if the Borrower has paid in full every month for the past 12 months. • If there were late payments in the last 12 month include 5% of the balance in the ratios. • Lender must document sufficient funds to pay off the balance and close the loan.
Authorized User Accounts	No guidance.	If the primary account holder has made all required payments on the account for the previous 12 months debt does not have to be included in Borrower's ratios. If less than 3 payments have been required in previous 12 months payment must be included.
Occupancy		
Multiple FHA Loans	Borrower may obtain a second FHA loan for a new principal residence when relocating for employment and current residence is more than reasonable commute to new residence.	Borrower may obtain a second FHA loan for a new principal residence when relocating for employment and current residence is more than 100 miles from new residence area.
Property		
Acceptable Mixed use	No more than 25% of the total floor space can be devoted to nonresidential use.	A minimum of 51% of the entire building square footage is for residential use.
Inducement to Purchase - Builder-Provided Below Market Rent	No guidance.	Below market rent provided by builders who fail to meet construction completion deadlines and provide buyers with temporary housing in other units owned is not considered an inducement to purchase.
Prior Ownership Review When Property Sold Within 12 Months	No guidance.	Prior ownership must be reviewed for undisclosed identity of interest transactions.
Shared Well - Feasibility	Not Required.	Shared wells allowed only when lender evidences: <ul style="list-style-type: none"> • Connection to public or community water system is not feasible; and • Property is not located in an area where local officials have determined public connection to be feasible.

Topic	Current FHA Guideline	New FHA Guideline
Refinances		
Rate and Term Refinance Types	<ul style="list-style-type: none"> • Rate and Term (refinance of any mortgage requires appraisal) • Streamline Refinance with appraisal • Streamline Refinance with appraisal - Credit Qualifying • Streamline Refinance without appraisal • Streamline Refinance without appraisal - Credit Qualifying 	<ul style="list-style-type: none"> • Rate and Term (refinance of any mortgage requires appraisal) • Simple Refinance (refinance of FHA-insured mortgage - requires an appraisal) • Streamline Refinance (no appraisal) • Streamline Refinance - Credit Qualifying (no appraisal) - ** Credit qualifying streamlines must meet manual UW guides. **
Rate and Term Maximum LTV	97.75%	<ul style="list-style-type: none"> • 97.75% is owner occupied for previous 12 months or owner occupied since acquisition if acquired within 12 months of case assignment date. • 85% if Borrower has occupied for < 12 months at time of case assignment or if owned less than 12 months, has not occupied the property for the entire period of ownership.
Cash-Out - Non-Occupant Co-Borrowers	Non-Occupant co-borrower may not be used to help qualify. All Borrowers on the note must be occupants.	Non-Occupant co-borrower may not be used to help qualify. (Second sentence was omitted to allow non-occupants to be on the note as long as they are not being used to qualify.
Cash -Out LTV/CLTV	<ul style="list-style-type: none"> • Owned 12 months or more: 85% of the appraised value. • Owned less than 12 months: lesser of 85% of appraised value or original sales price. 	Owned and occupied as principal residence for 12 months prior to case number assignment date: 85% of appraised value. ** Exceptions allowed for inheritance **
Skipped Payments	Borrower must be current on the loan being refinanced for the month due prior to the month in which he/she closes the refinance, and for the month in which he/she closes.	Payments for all mortgage secured by the subject property must have been paid within the month due for the month prior to mortgage disbursement.
Streamline Refinances		
Streamline Refinances Net Tangible Benefit - Term Reduction	Reduction in term alone does not constitute net tangible benefit.	Reduction in term alone constitutes net tangible if the new rate does not exceed the current rate and payment (principal, interest and MIP) does not increase by more than \$50.
Streamline Refinances Net Tangible Benefit - Definition	5% reduction to the monthly principal, interest and mortgage insurance payment (PIMIP); or refinancing from an adjustable rate to a fixed rate (in accordance with the conditions in the Net Tangible Benefit Matrix)	A reduced combined rate, a reduced term and/or a change from an ARM to a fixed rate mortgage that results in a financial benefit to the borrower. Combined rate refers to the interest rate on the mortgage plus the MIP rate (Amount of reduction to combined rate varies. (Ex: Fixed to fixed requires .5% lower combined rate)
Proof of Occupancy	No requirement	<ul style="list-style-type: none"> • Lender must verify owner occupancy through utility bill or employment documentation. • All properties the cannot prove owner occupancy must be processed as an investment property.
Funds to Close	Must be verified and deposits in excess of 2% of the appraised value must be sourced.	• The mortgagee must verify Borrower's funds to close, in excess of the total mortgage payment of the new mortgage in accordance with the sources of funds policy.