

FHA MANUAL UNDERWRITE

FHA Manual Underwriting – REFER or loans downgraded to REFER

Manual underwriting requires careful analysis of the entire loan profile. The underwriters must judge the overall merits of each loan file by determining what compensating factors apply as well as identifying risk layers.

EXAMPLES OF ITEMS CONTRIBUTING TO RISK LAYERING:

1. Derogatory credit within the past 12 months.
2. Prior Bankruptcy and/or Foreclosure.
3. Thin Credit - less than 3 active traditional trade lines.
4. Credit Inquiries within the past 6 months.
5. High DTI
6. Income Stability, such as, time on current job, excessive changes in employment, and inconsistent level income earnings.
7. Gift Funds versus borrower's own funds in the transaction.
8. DPA's
9. Lack of Reserves
10. Housing payment shock
11. Non-Occupant borrowers
12. Retaining current home as an "Investment Property".
13. Loan Purpose/Type, such as, 203K, Cash Out, High LTV, and Occupancy.
14. Property Type, such as, Manufactured Homes and Unique Properties.

FOR FHA LOANS
HUD APPROVED COMPENSATING FACTORS FOR LOANS OVER RATIO

- A. The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new Mortgage over the past 12-24 months.
- B. The borrower makes a large down payment (ten percent or more) toward the purchase of the property.
- C. The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- D. Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- E. The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- F. There is only a minimal increase in the borrower's housing expense.
- G. The borrower has substantial documented cash reserves (at least three months' worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the lender must judge whether or not the asset is liquid or readily convertible to cash and can be done so absent retirement or job termination. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. "Assets" such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. Similarly, funds from gifts from any source are not to be included as cash reserves.
- H. The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computations).
- I. The borrower has a potential for increased earnings, as indicated by job training or education in the borrower's profession.
- J. The home is being purchased as a result of relocation of the primary wage earner, and the secondary wage-earner has an established history of employment is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The underwriter must document the availability of such possible employment.

Satisfactory Credit	
	<p>Minimum credit score guidelines will not be imposed, the following are FHA rules on credit scores and LTV limitations When the decision credit score is:</p> <ul style="list-style-type: none"> • 580 and above: Maximum financing • 500-579: Maximum LTV 90% • 499 and below: Not eligible for FHA insured financing <p><i>A transaction where one borrower has only "nontraditional credit" and the other has a decision credit score of less than 500 would also be ineligible.</i></p>
General Credit	<p>In order to determine borrower's credit worthiness, underwriter should evaluate the borrower overall pattern of credit behavior, not just isolated or unsatisfactory accounts or slow payments.</p> <p>The underwriter may consider a borrower to have an acceptable payment history if the Borrower has made all housing (rent or mortgage) payments AND installment debt payments on time for the previous 12 months AND no more than two 30-day late mortgage or installment payments in the previous 24 months as long as satisfactorily explained.</p> <p>The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.</p> <p>A satisfactory explanation for all credit derogatory is required on all judgments, collections, charge-offs and any other derogatory credit within past 2 years.</p>
Type of Payment Histories	<p>The underwriter must evaluate the Borrower's payment histories in the following order:</p> <ol style="list-style-type: none"> 1) previous housing expenses and related expenses, including utilities; 2) installment debts; and then 3) revolving accounts.
Verification of Rent	<p>Rental verification (VOR) is required on all loans manually underwritten if borrower is currently renting or has rented within the past 24 months (if not currently renting). Must indicate no late payments (more than 30 days) in the past 12 months.</p> <p>Acceptable documentation to verify rent:</p> <p>The mortgagee must document the Borrower's Housing Obligation payment history covering the previous 12 month period through:</p> <ul style="list-style-type: none"> • VOR reference on the credit report; if borrower does not pay by cancelled check and not through management company. • Verification of rent received directly from a Management Company along with a COMPUTERIZED payment history showing payment due date and date received. • 12 months of canceled checks that cover the most recent 12-month period along with copy of the lease to verify the monthly rent and to identify landlord. <p>For Borrowers who indicate they are living rent-free, the mortgagee must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.</p>

THIN Credit	<p>Thin Credit: Defined as borrowers who have less than 3 trade lines on credit report, open and active for at least 12 months. We will require a total of 3 trade lines which may be comprised of traditional and non-traditional accounts.</p> <p>If borrower has thin credit, may supplement with (in the following order):</p> <ul style="list-style-type: none"> • Rental housing payment – <i>see above for acceptable documentation</i> • Utility company references • Telephone service • Internet/cable/television services • Renters insurance <p>Acceptable documentation for non-traditional credit references: payment history from company website with URL address included at bottom or top of form, payment history faxed or e-mailed directly from company to lender.</p>
Reserve Requirements	<p>1-2 unit properties: Minimum one PITI payment required 3-4 unit properties: Minimum three PITI payments required</p> <p><i>Reserves CANNOT include gifts, cash back from cash out refinances OR incidental cash back from rate/terms refinances, or borrowed funds from any source.</i></p>
<p>Required Documentation: Below are some of the more common differences in required documentation versus Approve/Eligible loans. This list is not all inclusive. Refer to Single Family Handbook for more information.</p>	
Traditional Employment Documentation	<ul style="list-style-type: none"> • Most recent pay stub covering most recent 30 days – must show YTD earnings • W/2s covering most recent two years • Verbal VOE prior to close • Tax transcripts required when the borrower is self employed
Asset Verification	Two months bank statements are required.
Employment Gaps	Gaps in employment over 30 days must be explained. Verbal VOE's covering past 24 months will be required to verify gaps, if any – must be submitted with initial submission.
Child Support/ Alimony/Maintenance	<p>Borrower must document receipt of payments during the last 12 months, such as:</p> <ul style="list-style-type: none"> • cancelled checks • deposit slips • tax returns • court records
Self Employed Borrowers	A business credit report is required for all Corporation and "S" Corporations. Must indicated business is in good financial standing – no judgments, collection or significant derogatory credit.

Maximum DTI Ratios	<p>Maximum DTI ratios are 31/43 (with NO exceptions) for borrowers with credit scores UNDER 580. Ratios may be exceeded per the matrix below ONLY if acceptable compensating factors apply per the matrix.</p> <p>We will calculate Residual Income on ALL borrowers where DTI ratios exceed 31/43 using VA guidance. Borrowers must meet the minimum residual income guidelines as published by VA for the region the property is located. Gross monthly income is used for OCCUPYING BORROWERS ONLY. NOCB income may not be included when calculating residual and may not be used as a compensating factor.</p>	
<p>MAXIMUM QUALIFYING MATRIX BASED ON CREDIT SCORE Manual Underwriting Matrix For Case Numbers Issued on or After April 21, 2014</p>		
Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or Non-traditional/Insufficient Credit	31/43	<p>Not applicable. Borrowers with minimum decision credit scores below 580, or with Non-traditional or Insufficient Credit may not exceed 31/43 ratios.</p> <p>Energy Efficient Homes may have stretch ratios of 33/45.</p>
580 and above	31/43	<p>No compensation factors required.</p> <p>Energy Efficient Homes may have stretch ratios of 33/45.</p>
580 and above	<p>37/47</p> <p>Individually above 31% & above 43%</p>	<p>Borrower must meet VA residual guidelines AND</p> <p>One of the following:</p> <ul style="list-style-type: none"> • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). NO gift funds. • New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less; and there is documented twelve month housing payment history with no 30 day late payments. <p>In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.</p>
580 and above	40/40	<ul style="list-style-type: none"> • Borrower must meet VA residual guidelines AND • Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months.)

<p>580 and above</p>	<p>40/50 Individually above 31% & above 43%</p>	<ul style="list-style-type: none"> • Borrower must meet VA residual guidelines AND <p>Two of the following:</p> <ul style="list-style-type: none"> • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). NO gift funds. • New total monthly mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less; and there is documented twelve month housing payment history with no 30 day late payments. <p>In cash-out transactions all payments on the mortgage being financed must have been made within the month due for the previous 12 months.</p> <ul style="list-style-type: none"> • Verified and documented significant additional income that is not considered effective income (i.e., part-time or seasonal income verified for more than one year but less than two years).
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FHA underwriter must list all compensating factors that apply on the FHA transmittal.