



FHA SINGLE FAMILY HANDBOOK 4000.1

Effective case number assignments on or after 9/14/2015

3rd PARTY ORIGINATIONS

Topic	Handbook 4000.1 Policy	Previous Policy	Purchase or Refi	TOTAL or Manual
Application and Disclosures				
Sales Contract	Only Borrowers sign the sales contract. A family member, who is not a borrower, may be listed on the sales contract and may be on title	Only Borrowers may be on the sales contract	Purchase	Both
Age of Documents	New and Existing Construction: No older than 120 days at disbursement	Documents for proposed / new construction may be 180 days old.	Both	Both
Non-Borrowing Spouse	A non-borrowing spouse's (NBS) consent and authorization, where necessary, but always in a Community Property State, including the consent to verify NBS SSN with the SSA is required.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Appraisal Transfer	Within 5 days of borrower request	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Family Member Definition	<p>An Identity-of-Interest:</p> <ul style="list-style-type: none"> • Child, parent, or grandparent; • Defined as a son, stepson, daughter, or stepdaughter; a parent or grandparent includes a step-parent/grandparent, foster parent/grandparent; • Spouse or domestic partner; • Legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption, foster child; • Brother, stepbrother; • Sister, stepsister; • Uncle or aunt or • In-Laws <p>All Other Transactions:</p> <ul style="list-style-type: none"> • Child, parent, or grandparent; • Defined as a child is defined as a son, stepson, daughter, or stepdaughter; • Spouse or domestic partner; • legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption; Foster child. 	Added domestic partner, brother, stepbrother, sister, stepsister, uncle, aunt and all in-laws to Identity of Interest	Both	Both

Credit Requirements				
Charge-offs	Non-Disputed Charge-offs are excluded from liabilities and ratios.	Defined disputed and non-disputed charge-offs	Both	Both
Federal Tax Liens	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.	No requirement for 3 months of scheduled payments.	Both	Both
Judgments	A Judgment may remain unpaid if the borrower has entered into a valid agreement with the creditor and has made timely payments for at least 3 months and will not supersede the FHA-insured mortgage lien. Payments may not be prepaid.	Judgments must be paid prior to or at close. A satisfaction is required. If paid at close, a payoff letter is required.	Both	Both
Installment < 10 remaining payments	Excluded: if to be paid off within 10 months and the cumulative payments \leq than 5% of the gross monthly income. The Borrower may not pay down the balance to achieve this percentage.	Debts lasting < 10 months must be included if the amount of the debt will affect the ability to pay the mortgage during the months after loan closing, especially if the borrower will have limited or no cash assets.	Both	Both
Authorized User Accounts	If the primary account holder has made all required payments on the account for the previous 12 months, the debt may be excluded from ratios. If < 3 payments have been required on the account, the payment must be included in the ratio.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Deferred Obligations	Must include deferred obligations in the Borrower's ratios. If payment is not on the credit report, obtain the terms of the debt or use 5% of the outstanding balance. If student loan, 2% of outstanding balance.	May be excluded if deferred from 12 months of loan closing	Both	Both
Installment	If monthly payment is not shown on the credit report, must obtain and use the payment in the loan agreement or payment statement in the ratios.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Revolving	If the payment is not shown on the credit report, obtain and use current account statement or 5 percent of the outstanding balance.	If the credit report shows a revolving account with an balance but no specific minimum monthly payment, the payment must be calculated as the > of 5% of the balance, or 10.	Both	Both
30-Day Accounts	Must verify, via the credit report, the outstanding balance is paid in full for the past 12 months to excluded from ratio. If > 0x30, must utilize 5% of the balance in ratio. Must document sufficient funds to payoff and close the loan.	Monthly payments on revolving or open-ended accounts, regardless of their balances, are counted as liabilities for qualifying purposes even if the accounts appear likely to be paid off within ten months or less.	Both	Both
Contingent Liabilities	May exclude from ratio if obtain verification the other party has made 12 months of timely payments. If ex-spouse obligation, obtain Divorce Decree. If account is less than 12 months old, the payment must be included in the DTI.	Must obtain documentation to evidence that the other party has been making regular on-time payments during the previous 12 months.	Both	Both

Business Debt	To exclude the debt from the DTI, documentation that the debt is paid by company funds and is considered in the cash flow analysis of the business tax returns. If not considered in the cash flow analysis, the payment must be included in the DTI.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Derogatory Event Waiting Period	Defined as "from event date to the new case number assignment date." Manual downgrade required if not seasoned. (Foreclosure, Deed in Lieu of and Short Sale event date is date of title transfer. Bankruptcy is date of discharge)	Current handbook did not include an event start date or end date.	Both	TOTAL
Short Sale	If case number assignment date is within 3- years of the date of the transfer of title through Short Sale, the loan must be manually downgraded.	Exception for non-delinquency prior to Short Sale has been removed as an exception for TOTAL.	Both	TOTAL
Manual Downgrade	The Borrower has undisclosed mortgage debt; or Business income shows a greater than 20 percent decline over the analysis period.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	TOTAL
Disputed Derogatory	Includes Disputed Charge Off Accounts, collection accounts, & disputed accounts with late payments in the last 24 months. Exclusions: <ul style="list-style-type: none"> ● Medical accounts & derogatory resulting from theft ● Downgrade required when an aggregate of a \$1,000 or more ● A non-borrowing spouse in a community property state excluded. 	Separated Disputed and Non-Disputed Derogatory. New Handbook better defines and provides detailed guidance.	Both	TOTAL
Non-Disputed Derogatory	Includes the below types of accounts & excluded from \$1,000 balance: <ul style="list-style-type: none"> ● disputed accounts with zero balance ● disputed accounts with late payments aged 24 months or greater ● disputed accounts that are current and paid as agreed 	Separated Disputed and Non-Disputed Derogatory. Provided definition.	Both	TOTAL
Consumer Credit Counseling	No explanation or other documentation is needed.	1-year of the pay-out period has elapsed, paid satisfactory, and has received written permission from the counseling agency.	Both	TOTAL
Disputed & Non-disputed Derogatory	Charge Off Accounts, collections accounts & disputed account with late payments in the last 24 months. Exclusions: <ul style="list-style-type: none"> ● Medical & derogatory resulting from theft. ● Must provide letter of explanation and documentation supporting the dispute. 	New FHA Guideline. New Handbook defines Disputed & Non-Disputed Derogatory. Previous handbook did not specifically define the difference. NPF is adopting.	Both	Manual
Income				
Frequent Job Change	If borrower has changed jobs more than 3 times in the previous 12-month period, must obtain transcripts of training or education evidence or continual increases.	The underwriter should favorably consider a borrower for a mortgage if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits.	Both	Both
Hourly	Use the current hourly rate to calculate Effective Income if hours do not vary. If the hours vary, average over the previous two years. If a pay increase can be documented, may use the most recent 12-month average.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both

Part-Time	If part-time employment is uninterrupted for the past 2-years and the current position is reasonably likely to continue, average the income over the previous 2-years. If a pay increase can be documented, may use recent 12-month average.	Part-time income received for less than 2 years may be included as income, provided that the lender justifies and documents that the income is likely to continue.	Both	Both
Bonus & Over-Time	Overtime and Bonus Income may be used as Effective Income. If it was received for the past 2-years and it is reasonably likely to continue. <ul style="list-style-type: none"> • If less than 2-years may be considered if earned over 1-year and is reasonably likely to continue. Income must be averaged over the previous 2-years. • If the Income from the current year decreases by 20% or more from the previous year, must use the current year's income. 	The lender must develop an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable, provided the lender can justify and document in writing the reason for using the income for qualifying purposes.	Both	Both
Commission	Earned for at least 1-year in the same or similar line of work and likely to continue. If income is \leq 25% of total earnings, must use traditional or alternative employment documentation. Income > 25% of total earnings, signed tax returns for the last 2-years. Must have at least 1 full year of income. Use the lesser of: <ul style="list-style-type: none"> • The average over the previous 2-years, or the length of time Income has been earned if < 2-years; or • The average Income earned over the previous 1 year. 	Commission income <i>must</i> be averaged over the previous two years. To qualify with commission income, the borrower must provide copies of signed tax returns for the last two years, and the most recent pay stub. If received for more than one year, but less than two years, must can document the likelihood that the income will continue, and soundly rationalize accepting the commission income.	Both	Both
Paystubs	Pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) with YTD earnings.	Paystub covering the most recent 30-day period. Allows for YTD earnings to cover 30-day period	Both	Manual
Self-Employed	Income received between 1 and 2-years, may only consider the income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least 2- years. Must have at least 1 full year of S/E income. Must use the lesser of: <ul style="list-style-type: none"> • the average gross Income earned over the previous 2-years; or • the average gross Income earned over the previous 1- year. 	A combination of one year of employment and formal education or Formal training in the line of work in which the individual is self-employed or in a related occupation is also acceptable. When qualifying a self-employed borrower for a mortgage loan, the lender must establish the borrower's earnings trend from the previous two years using the borrower's tax returns.	Both	Both
Stability of S/E	If the income shows > 20% decline in over the analysis period, must downgrade and manually underwrite.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Temporary Reduction	For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, must verify and document that: <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. <ul style="list-style-type: none"> • For Borrowers returning to work before or at the time of the first Mortgage Payment due date, pre-leave income may be used. • For Borrowers returning to work after the first Mortgage Payment due date, may use 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. 	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Social Security Disability	Must not expire in 3-years. Obtain a copy of the last Notice of Award letter, or an equivalent document and one of the following: <ul style="list-style-type: none"> • Federal tax returns; • The most recent bank statement evidencing receipt of income from the SSA; • A Proof of Income Letter, also known as a Budget Letter or • A copy of Borrower's form SSA-1099/1042S 	Added Notice of Award Letter and additional documentation required.	Both	Both

New Penn Financial, LLC (NPF)

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Pension	Use current amount if consistent. Use 2-year average if fluctuating amounts.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
VA Disability	Obtain VA Form 26-8937, <i>Verification of VA Benefits *Temporarily waived by HUD*</i> , showing the amount and the expiration date of the benefits, if any, and one of the following documents: <ul style="list-style-type: none"> ● federal tax returns; or ● recent bank statement evidencing receipt of income. 	Added VA Form 26-8937 as a requirement.	Both	Both
Rental Income on Retained Property	Rental Income may be counted when relocating and new residence is located at least 100 miles from previous residence and if income is not on previous tax filing, 25% equity must be validated with a full appraisal.	Rental income may be counted when relocating outside or reasonable commute distance for job and borrower has 25% equity	Both	Both
Assets				
EMD	Document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1% of the sales price or is excessive based on the Borrower's history of accumulating savings.	Document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 2% of the sales price, or appears excessive based on the borrower's history of accumulating savings.	Purchase	Both
POC & Interested Party Contribution	Interested Party credits may be applied to the closing costs and prepaid items including any items Paid Outside Closing (POC). The refund of the Borrower's POCs may be used toward the MRI if verification that the POCs were paid with the Borrower's own funds. **Mortgagee requires an exception	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Purchase	Both
Real Estate Credits	Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if verification and documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs at the time of underwriting.	New Guidance but not a new process. HUD was silent but allowed	Purchase	Both
Gift Funds	Requires Donor Bank Statement showing withdrawal of the funds.	Not clear about requiring donor's bank statement in all instances.	Purchase	Both
Interested Party Contribution	Interested Parties may contribute up to 6 percent of the sales price.	May contribute up to 6% percent of the <i>lesser of</i> the property's sales price or the appraised.	Purchase	Both
Reserves	The Mortgagee must verify and document all assets submitted to the AUS. Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing. *Gift cannot be used toward reserves.	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Both
Large Deposits	Must source recently opened accounts and deposits of more than 1% of the Adjusted Value (refer to glossary). The Mortgagee must verify no debts were incurred to obtain and part of the MR.	Source any large deposit in excess of 2% of the property sales price, and verify that any recent debts were not incurred to obtain any part of the required cash investment.	Both	Both

Access Letter	If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.	Previously TOTAL only	Both	Both
Retirement	60% of the value of assets, less any existing loans, from the retirement accounts is acceptable. If any portion of the asset is required for funds to close, evidence of liquidation is required.	Evidence of liquidation is not required, <i>unless</i> more than 60% of the amount in the account is used.	Both	Both
Satisfactory Credit for Manual Underwrite (excluding Streamlines)				
Satisfactory Credit	All housing and installment debt payments are 0x30x12 and has no more than 2x30x24 in housing or installment payments. <ul style="list-style-type: none"> Acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months. Major derogatory credit on revolving accounts includes: 1x90x12 or 3x60x12 	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Both	Manual
Products and Programs				
Cash Out	Must have been owned and occupied for the 12 months prior to the date of the case number assignment. 0x30x12 for ALL mortgages or 0x30 since obtained the mortgages, whichever is less.	If owned < 12 month preceding the date of the loan application LTV is limited to the <i>lesser</i> of 85% of the appraiser's estimate of value, or sales price of the property when acquired. Changed from date of application to the date of the case number assignment.	Refi	Both
Rate & Term	97.75% if owner occupied for previous 12 months or occupied since acquisition if acquired within 12 months of case number assignment. 85% if owned but not occupied as principal residence for < 12 months prior to case number assignment date; or if owned < 12 months, has not occupied the entire period.	97.75%	Refi	Both
Simple Refinance	FHA to FHA, Credit Qualify with appraisal. 97.75% LTV/CLTV; May roll closing costs; no seasoning; May use Streamline MI factors if refinancing a loan that closed prior to 5/2009; max cash back \$500	New Product	Refi	Both
Streamline Refinance	0x30 most recent 6 months; 1x30 previous 6 months. Must be current at close	< 12 months No delinquency; > 12 mths 1x30 preceding 12 months. Must have made all mortgage payments on time w/in the month due for 3 months prior to the loan application date.	Refi	Manual
Streamline Net Tangible Benefit	Based on a reduction of the combination of the current note rate +v MI factor to new rate + MI factor.	5% reduction in the monthly principal, interest and MIP or refinancing ARM to Fixed	Refi	Manual
Streamline Net Tangible Benefit	Reduction of term may be used as NTB if terms are reduced, new rate is < old rate and new Principal, interest & MIP is not > \$50 from current.	Reduction in term alone does not constitute Net Tangible Benefit	Refi	Manual
Purchase	Maximum 85% for Identity of Interest may be exceeded if borrower purchases the Principal Residence of a Family member or property owned by another family member in which the borrower has been a tenant for at least 6-months.	Identity of Interest for tenant/landlord is not required	Purchase	Both

Proof of Occupancy	Must verify owner occupancy through utility bills or employment documentation	New FHA Guideline. Not referenced in previous handbook. NPF is adopting.	Refi	Both
Streamline Funds to close	Must verify funds to close, in excess of the total mortgage payment.	All funds to close must be verified	Refi	Manual