



## GMFS Summary of Recent FHA Underwriting Guideline Changes: September 2015

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<b>ASSETS</b>					
<b>Earnest Money</b>	Document source of funds if amount exceeds 2% of sales price OR appears excessive based on borrower's savings history.	Document source of funds if amount exceeds 1% of sales price OR appears excessive based on borrower's savings history.	Purchase	Both	Still no clear definition of "excessive".
<b>Large Deposit Definition</b>	No written definition	For recently opened accounts and recent individual deposits of more than 1% of the Adjusted Value, the mortgagee must obtain documentation sourcing the deposits. The mortgagee must also verify that no debts were incurred to obtain part, or all, of the minimum required investment.	Both	Both	
<b>Gift Funds - Documenting Transfer</b>	Need statement in some instances	<p>Now required to provide donor's bank statement to show the withdrawal of gift funds. In all cases of a gift, the mortgagee must make a reasonable determination that it is not provided from an unacceptable source.</p> <p>* Gift funds IN borrower's account: Donor's bank statement showing the withdrawal and deposit slip into borrower's account</p> <p>* Gift funds NOT in borrower's account: Evidence of certified check, money order, cashier's check or wire transfer, and donor's bank statement showing the withdrawal</p> <p>* Gift funds paid directly to the settlement agent: Verify agent received funds from Donor's bank account and evidence received from acceptable source by reviewing donor's bank statement.</p> <p>**In all cases above, the fully executed gift letter is required.</p>	Purchase	Both	



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<b>Joint Funds Access</b>	Manual and TOTAL guides differed.	If the borrower does not hold the deposit account solely, all non-borrower parties (including spouse) must provide a written statement that the borrower has full access and use of the funds in the account.	Both	Both	Manual and TOTAL guides are now the same.
<b>Employer Assistance</b>	Any employer assistance loans must be factored into the DTI.	Clarifies that salary advances may not be used for funds to close (unsecured loan).	Both	Both	
<b>Retirement Account Liquidation</b>	Evidence of liquidation is not required unless the lender is using more than 60%	Evidence of liquidation is required if any portion is required for funds to close.	Both	Both	
<b>Real Estate Commission Proof of License</b>	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.	Purchase	Both	
<b>CREDIT</b>					
<b>Satisfactory Credit</b>	Borrower has acceptable credit if DE Underwriter feels borrower is a good credit risk.	A lender may approve a borrower if: 1) borrower is 0x30 on all housing and installment debt in last 12 months, 2) max 2x30 on mortgage and installment in last 24 months, 3) max 2x60 and 0x90 on revolving debt in last 12 months	Both	Manual	
<b>Modified Mortgage pay history</b>	Verify paid per agreement	A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing history.	Both	Both	If current mortgage has been modified, must use payment history since modification date. So if modified 2 years ago, the 12 month pay history requirements must be met using full pay history since modification, even if longer period.



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<b>FHA-Insured Open Mortgage</b>	No written guidance	Borrower is ineligible for approval until delinquency is resolved.	Both	Both	
<b>Derogatory Event Waiting Period</b>	Definitions varied	Defines as time from event date to the new loan case number assignment date.	Both	Both	
<b>Delinquent Federal non-tax debt</b>	Must be resolved prior to insuring.	Borrower is ineligible for processing until delinquency is resolved. By definition provided by Secretary of the Treasury, which is deferred to by the Debt Collection Improvement Act, a delinquent debt is a debt that is 1 or more days past the due date (or a contractual grace period).	Both	Both	
<b>Federal Tax Liens</b>	Tax liens may remain unpaid if the lien holder subordinates the lien to the FHA-insured mortgage. Include any payments in DTI.	Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement and has made at least 3 scheduled payments on time. Payments may not be prepaid.	Both	Both	
<b>Charge Offs</b>	No detailed guidance	Defined as loans or debts written off by the creditor that do not have to be included in DTI. They lender must determine 1) Why they exist, 2) document reasons for approving the loan, and 3) obtain an LOX from the borrower and supporting documentation.	Both	Manual	
<b>ELIGIBILITY</b>					
<b>CLTV on Streamline</b>	Max CLTV on Streamline with appraisal is 125%	Max CLTV on Streamline with appraisal is 97.75%	Refinance	Manual	
<b>PROCESSING</b>					



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<b>Handling of Documents</b>	Documents can't be transmitted from or through hands or equipment of interested third parties.	Documents can't be transmitted from or through hands or equipment of interested third parties, or unknown parties.  No validation or verification document may come from or otherwise handled at any point by any interested party, or the borrower.	Both	Both	Lender must identify source of ALL electronic transmission including faxes, emails, etc.
<b>Non-Permanent Resident Alien</b>	Copy of valid, acceptable VISA and document status.	Copy of valid Employment Authorization Document (EAD) and document status.	Both	Both	
<b>Application Name Requirements</b>	No written guidance	All mortgage applications must be executed in the legal names of all parties and must be executed in the name of one or more individuals.	Both	Both	
<b>Application Signatures</b>	All borrowers must sign either the initial or final 1003.	All borrowers must sign both the initial and final 1003.	Both	Both	
<b>HUD 92900-A - Initial</b>	No written guidance	Must be signed/dated by all borrowers PRIOR to loan being underwriting.	Both	Both	
<b>Non-Borrowing Spouse</b>	No written guidance	Must obtain non-borrowing spouse's consent and authorization, where necessary, to process application, including consent to verify SSN with the SSA.	Both	Both	
<b>SSN Discrepancy</b>	No written guidance	Must resolve any inconsistency or multiple SSN's for borrowers revealed during the process of a loan. Includes verifying the SSN with the SSA.	Both	Both	
<b>Co-Mortgagor</b>	No written guidance	Must be a "Family Member"	Both	Both	Co-Mortgagor is someone who is on title only, but not the note.
<b>Age of Documents</b>	Existing Construction: 120 days New Construction: 180 days	120 days on all loans	Both	Both	



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<b>EPLS</b>	Check all interested parties to the transaction.	Check all parties to the transaction including processors, underwriters, appraisers and consultants.	Both	Both	
<b>Case Number Transfer Timeline</b>	No written guidance	Immediately upon borrower request.	Both	Both	
<b>Appraisal Transfer Timeline</b>	No written guidance	Within 5 business days of borrower's request.	Both	Both	
<b>GLOSSARY</b>					
<b>Family Member</b>	Differed from Identity of Interest transactions vs Other transactions	Family member is defined as follows: Child (incl step, adopted, foster), Parent (incl step, adopted, foster), Grandparent (incl step, adopted, foster), Spouse or Domestic Partner, 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. Document relationship of donor(s) to Borrower(s).	Both	Both	Cousins are NOT considered family members.
<b>INCOME/EMPLOYMENT</b>					
<b>Part-Time Employment Income</b>	Underwriter discretion allowed when received less than 2 years and likely to continue.	Two years uninterrupted p/t income is required. Avg the income over 2 years, or Use a 12-month average of hours at the current pay rate if the lender documents an increase in pay rate.	Both	Both	
<b>Paystub Document</b>	Paystub covering most recent 30-day period	TOTAL: Most recent pay stub that shows the Borrower's YTD earnings. Manual: Most recent pay stub covering 30 days. (If paid weekly or bi-weekly, must cover 28 days)	Both	Both	



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<b>Self-Employed Declining Income</b>	Lender to establish earnings trend and determine to be stable or increasing. Significantly declining income not acceptable even if income would meet DTI requirements.	Income from a business with a 20% or greater decline over the analysis period is not acceptable and requires downgrade to manual. However, such a large decline may be deemed stable if all of the following are documented: 1) the reduction was the result of a documented extenuating circumstance, 2) the income has been stable or increasing for at least the last 12 months, and 3) the borrower qualifies using the reduced income.	Both	Both	To show a 12-month increase in income, you will need a combination of P&L's, tax returns, etc. To break down the most recent 12 month period may require P&L's for quarterly reports within the timeframe where returns are already present.
<b>Business Credit Reports</b>		Business credit reports required for S-Corps and Corporations.	Both	Manual	
<b>P&amp;L and Balance Sheets</b>		P&L and Balance Sheets are required if a calendar quarter has elapsed since last tax filing for all self-employed businesses. However, if the business is a Schedule C business, only the P&L will be required.	Both	Both	
<b>Frequent Job Changes</b>	Okay if borrower continues to advance in income or benefits.	If the borrower has changed jobs more than 3x in the prior 12 months, or has changed lines of work, the lender must obtain: 1) transcripts of training and education demonstrating qualification for the new position, or 2) employment documentation evidencing continual increases in income and/or benefits.	Both	Both	If the employee is sent out to different jobs by a Union, consider the Union his employer in this circumstance so this would not apply.
<b>Hourly Earnings Calculation</b>	Use prvs year plus YTD avg	* If the hours do not vary, use the hourly rate. * If the hours vary, use a 2-yr average * If the hours vary and there is a documented increase in pay rate, use a 12-month average of documented hours at the current pay rate.	Both	Both	



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<b>Overtime and Bonus Income Calculation</b>	General Rule - Overtime or Bonus income must have been received for the past 2 years. Exception: periods of 1-2 yrs may be acceptable if lender can justify and document why its use is acceptable.	General Rule - Overtime or Bonus income must have been received for the past 2 years. Exception: periods of 1-2 yrs may be acceptable if consistently earned for at least 1 year and likely to continue.  How to calculate income: 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.	Both	Both	
<b>Commission Income</b>	General Rule - Commission income must have been received for the past 2 years. Exception: periods of 1-2 yrs may be acceptable if lender can justify and document why its use is acceptable.	Earned for at least 1 year in same or similar line of work and likely to continue. Calculate by subtracting URE expenses from lesser of: 1) average net commission earned over the past 2 years (or period earned), and 2) the average income earned over the prior 1 year.	Both	Both	If earned less than 1 year, not eligible for qualifying even if borrower is with same employer and switched from salary or another pay structure.
<b>Voluntary Alimony or Child Support Payments (not-court ordered)</b>		Allowed; if using a voluntary payment agreement the lender must obtain 12 months cancelled checks, deposit slips, or tax returns. If there is evidence of consistent receipt over the most recent 6 months documented, then use the current payment to calculate income. If the most recent 6 months are not consistent, average the income received over the last 2 years (or less if in order for less time period).	Both	Both	Always must document most recent 12 months of receipt and satisfactory executed written agreement between the two parties.
<b>Rental Income on retained Primary Residence</b>	Rental income may be counted when relocating outside of reasonable commuting distance for job and borrower has 25% equity in departing residence.	Rental income may be counted when relocating at least 100 miles from previous residence and borrower has 25% equity in departing residence.	Both	Both	Use shortest route on Google Maps to determine distance.



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<b>Non-taxable Income</b>	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 no returns filed, use rate of 15%.	Both	Both	
<b>Temporary Reduction in Income</b>	No written 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"> <li>a) Borrower intends to return to work;</li> <li>b) Borrower has the right to return to work; and</li> <li>c) Borrower qualifies for the mortgage on the lower income amount.</li> </ul> <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>	Both	Both	





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<b>SSI Disability Income</b>		<p>Mortgagee must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the borrower, and one of the following documents:</p> <ol style="list-style-type: none"> <li>1. Federal tax returns, or</li> <li>2. Most recent bank statement evidencing receipt of income from the SSA, or</li> <li>3. A Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA, or</li> <li>4. A copy of the borrower's from SSA-1099/1042S (Social Security Benefit Statement)</li> </ol>	Both	Both	
<b>VA Disability Income Documentation Requirements</b>	<p>To verify VA Disability obtain one of the following:</p> <ol style="list-style-type: none"> <li>1. Disability policy</li> <li>2. Benefit statement</li> <li>3. Award Statement</li> </ol>	<p>Mortgagee must obtain VA Form 26-8937, Verification of VA Benefits, showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:</p> <ol style="list-style-type: none"> <li>1. Federal tax returns, or</li> <li>2. Most recent bank statement evidencing receipt of income from the insurance provider.</li> </ol>	Both	Both	
<b>Unreimbursed Employee Expense</b>	Consider in all income calculations	Must be considered if tax return information is available in the file, and URE are present. Always considered for anyone whose commissions are >25% of the income.	Both	Both	
<b>Pension Income Calculation</b>	No guidance	Use current amount if consistent. Fluctuating amounts require use of a 2-year average.	Both	Both	
<b>401k Income Calculation</b>	No guidance	Use current amount if consistent. Fluctuating amounts require use of a 2-year average.	Both	Both	



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<b>Working for Family with recent increase in income</b>	No written guidance	No recent or expected income from family-owned business may be used in qualifying.	Both	Both	
<b>Gaps in Employment Explanations</b>	Manual: 1 month gap must be explained TOTAL: Gaps over 6 months must be explained.	Gaps of less than 6 months require no explanation.	Both	Both	
<b>LIABILITIES</b>					
<b>Deferred Loans</b>	Loan deferred >12 months from closing do not have to be counted in ratios.	All deferred obligations regardless of when they will commence, must be included in the qualifying ratios. Lender must obtain evidence of deferral, outstanding balance, the terms of liability, and the anticipated monthly payment. If the actual monthly payment is -0- or is not available, the mortgagee must utilize 2% of the outstanding balance to establish the monthly payment.	Both	Both	
<b>Installment Debt &lt;10 Months payments</b>	May be excluded from ratios if debt will not affect ability to pay mortgage.	May be excluded only if: 1) 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.	Both	Both	
<b>Allmony</b>	Treat as a liability.	May be treated as a reduction from gross income or as a monthly obligation. Must obtain paystubs covering at least 28 consecutive days to verify whether the borrower is subject to any order of garnishment.	Both	Both	28 days of paystubs will be required
<b>Child Support</b>	Treat as a liability.	Must be treated as a monthly obligation. Must obtain paystubs covering at least 28 consecutive days to verify whether the borrower is subject to any order of garnishment.	Both	Both	28 days of paystubs will be required



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<b>Revolving Accounts - Monthly Payment Calculation</b>	Actual monthly payment, or greater of 5% of balance or \$10	Actual monthly payment or 5% of outstanding balance	Both	Both	
<b>30-Day Account (Open 30-day Account)</b>	No guidance	Not included in ratios if Borrower has paid balance in full for past 12 months. If not documented as such, or there were late payments in last 12 months, then use 5% of balance in the ratios. Lender must also document sufficient funds to pay off the balance in excess of funds and reserves required for approval.	Both	Both	Must use credit report to determine borrower has paid the balance monthly for the previous 12 months. Also use credit report to obtain current balance for asset requirement.
<b>Authorized User Accounts</b>	No guidance	If the primary account holder (non-borrower) 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 on the account in the previous 12 months, the payment must be included in the ratios.	Both	Both	Must document last 12 payments and who made them to exclude from DTI.
<b>OCCUPANCY</b>					
<b>Multiple FHA Loans</b>	Borrower may obtain second FHA loan for new principal residence when relocating for employment and current residence is more than reasonable commute to new residence.	Borrower may obtain second FHA loan for new principal residence when relocating for employment and current residence is more than 100 miles from new residence.	Purchase	Both	
<b>Streamline Refinances - Occupancy</b>	No need to prove occupancy.	Client must prove occupancy with at least 2 different utility bills or employment documentation on owner-occupied streamline loans.	Refinance	Manual	



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<b>Streamline Refinances - Net Tangible Benefit</b>	5% reduction in P&I and MIP payment.  *If reduction in term, still require 5% reduction in payment.	.50% reduction in combined total rate. Combined Total Rate is the sum of the note rate plus the MIP rate.  *For term reduction, rate cannot increase, and payment cannot increase more than \$50 per month.	Refinance	Manual	
<b>Streamline Refinances - Funds to Close</b>	All funds to close must be fully documented.	No need to document funds to close as long as total is less than the borrower's new P&I (only) payment.	Refinance	Manual	Note: P&I only. Do not incl MIP, T&I or HOA dues.
<b>Active-Duty Military</b>	Veteran must live in home more than 1/2 the year to consider a primary residence.	Veterans on active duty are allowed to finance their home as a primary residence, provided it can be documented that the home is occupied by the Veteran's Spouse.	Both	Both	
<b>PROPERTY</b>					
<b>Prior Ownership Review When Sold Within 12 Months</b>	No guidance	Prior ownership must be reviewed for undisclosed identity-of-interest transactions.	Both	Both	
<b>Shared Well- Feasibility</b>	Not required	Shared well allowed only when lender evidences: 1) connection to public or community water system is not feasible, and 2) property is not located in an area where local officials have determined public connection to be feasible.	Both	Both	
<b>Downgrading to Manual</b>					



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<p><b>Loan must be downgraded in the following instances:</b></p>	<p>Variable</p>	<ul style="list-style-type: none"> <li>* 3x30 or 1x60 mortgage history in last 12 months</li> <li>* If any delinquent federal debt is present</li> <li>* Any borrower does not have a credit score</li> <li>* Foreclosure, short sale, or DIL within 3 yrs</li> <li>* BK discharged within 2 years</li> <li>* A mortgage is not disclosed or discovered that is not listed on the application and/or the credit report.</li> <li>* Any mortgage tradeline (incl 2nd liens) has less than 6 months history</li> <li>* &gt;\$1,000 in disputed derogatory accounts</li> <li>* Derogatory or any other credit information has not been considered by TOTAL (i.e. NSF checks on bank statements)</li> <li>* Business income shows decline of &gt;20%</li> <li>* TOTAL conditions cannot be met</li> <li>* CAIVRS claim is present unless erroneous or qualifies for exception listed below:                             <ul style="list-style-type: none"> <li>a) Assumption- loan was current prior to the assumption</li> <li>b) Divorce- home and debt assigned to ex-spouse and mortgage was not in default at the time</li> <li>c) Bankruptcy- mortgage was included in a bankruptcy due to extenuating circumstances</li> </ul> </li> <li>* Borrower is named on an excluded party list</li> </ul>	<p>Both</p>	<p>TOTAL</p>	
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<b>**Please check Client Guides for potential overlays with the FHA product. Overlays are to be applied in addition to what is presented in this document.</b>					