FHA Fixed Rate and ARM

Program Description: Fixed or adjustable rate, fully amortizing mortgage insured by the Federal Housing Administration (FHA). Any FHA guidelines not specifically addressed in these guidelines can be located on FHA's website at www.hud.gov or www.hudclips.org. All loans must be in compliance with published FHA guidelines.

Program Codes:

FF30	FHA 30 Year Fixed
FF30Stream	FHA 30 Year Fixed Streamline
FF15	FHA 15 Year Fixed
FF15Stream	FHA 15 Year Fixed Streamline
FA51	FHA 5/1 Year LIBOR ARM
FA51Stream	FHA 5/1 Year LIBOR ARM Streamline

High Balance Program Codes:

HBFF30	High Balance FHA 30 Year Fixed
HBFF30Stream	High Balance FHA 30 Year Fixed Streamline

Contents: click heading below to be directed to appropriate section.

Mega Capital does not make any loans, which are defined, as "high-cost" under Section 32 or any State or locally governed legislation.

Mega Capital reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet Program Guidelines and Mega Capital Conventional Underwriting guidelines.

Maximum LTV/CLTV

Purchase	Rate/Term Refinance[1,3]	Cashout Refinance[1]	Streamline Refinance[2]
96.50 / 96.50[4]%	97.75 / 97.75%	85.00 / 85.00%	97.75 / 100.00%

1. CLTV cannot exceed the maximum allowable LTV for the transaction. New subordinate financing is not allowed.
2. Existing subordinate financing may remain in place up to 100% maximum CLTV on 1 unit owner occupied properties. New subordinate financing is not allowed.
3. LTV is limited to 85% for borrowers who reoccupied a former investment property less than 12 months prior to application.
4. Subordinate financing not allowed on High Balance purchase.

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Age of Documents	120 Days 180 Days on new construction Back to Top
Appraisals	The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHA standards. • The appraisal report must be dated within 120 days of the note regardless of construction stage. • Operating Income Statement will be required on all 2-4 unit properties. • Properties appraised in “Fair Condition” are unacceptable. The property must be brought up to at least “Average Condition” prior to closing. A final inspection showing the work has been completed must be included in the file. Escrow holdbacks may be permitted. • On streamline refinances with an appraisal, a NEW appraisal is always required. A re-certification of value is not acceptable. At least 2 of the 3 comparables must be dated within 90 days of the appraisal date. The following require a 2nd Full FHA appraisal: • Sales within 91-180 days if the sales price has increased by 100% or more • Cashout High Balance loans • 2 unit High Balance loans **Declining Markets** Standard appraisal requirements apply or as required by DU. Appraisals marked as "declining" should be given additional scrutiny to ensure the value is supported by the most recent sales and market data and that all the comments from the appraiser are taken into consideration. Back to Top
Appraiser Requirements	Must meet all requirements as established by FHA. Must not be on investor’s ineligible appraisers list. Back to Top

<table>
<tr><td>ARM Program Information</td><td colspan="2">Index: The weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year.
Margin: 2.00%
Initial/Annual Adjustment Cap: 1.00%. The interest rate is fixed for the first 60 months and will adjust no sooner than 60 months and no later than 66 months after the first payment date. Thereafter, the interest rate will adjust annually.
Life Cap: 5.00%
Payment Cap: N/A
Payment Adjustment: The first payment adjustment date will be the first of the month following the interest rate adjustment and every 12 months thereafter.
Conversion Option: None
Conversion Fee: N/A
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<tr><td>Assets</td><td colspan="2">The borrowers must have enough liquid assets to cover the down payment, closing costs and any prepaid items. Bank statements are required regardless of DU findings.
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<tr><td>Assumptions</td><td colspan="2">Permitted to credit qualified borrowers.
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<tr><td rowspan="7">Borrower Eligibility</td><td>Borrower Type</td><td>Requirements</td></tr>
<tr><td>U.S. Citizens</td><td>• Allowed with a valid Social Security Number</td></tr>
<tr><td>Permanent Resident Aliens</td><td>• Allowed under the same terms as US citizens.
• Permanent resident aliens must provide proof of their residency (i.e. green card).
• The Permanent Resident Alien certification must be completed and included in the loan file.
• Must occupy the property</td></tr>
<tr><td>Non-Permanent Resident Aliens</td><td>• Borrowers are eligible for financing under the same terms as a US citizen.
• Must currently reside in the U.S. and have a social security number
• Borrower must be employed in the U.S. The source of the income must be verified and must be expected to continue for at least 3 years
• Must have a 2-year work history including their employment in a foreign country. Standard documentation authenticity, accuracy, and completeness apply
• Tax Identification Number (TIN) is not acceptable
• Must occupy the property
• One of the following valid Visas are required:
- H-1B, Temporary Worker.
- L-1, Intra-Company Transferee.
- E-1, Treaty Trader.
- E-2, Treaty Investors
- G series (G-1, G-2, G-3, G-4).
- TN or TC NAFTA VISA – Used by Canadian or Mexican citizens.</td></tr>
<tr><td>Foreign National</td><td>• Not allowed</td></tr>
<tr><td>First Time Homebuyer</td><td>• Allowed with no restrictions</td></tr>
<tr><td colspan="2">Maximum number of borrowers is limited to 4.
Back to Top</td></tr>
<tr><td>Construction to Permanent</td><td colspan="2">Not allowed.
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<tr><td>Credit</td><td colspan="2">The minimum representative credit score is 640 (660 for High Balance, 680 for High Balance Cashout and Streamline), regardless of the DU findings.</td></tr>
</table>

	Non-Borrowing Spouse for streamline refinances, no credit report required. Non-Credit Qualifying Streamline Refinance transactions are included in this Loan Score requirement. A tri-merged credit report (or a mortgage only credit report showing scores from 3 bureaus) must be obtained to verify the minimum score requirements but they do not need to be processed through Total Scorecard. Non-Traditional credit is not allowed. A manual downgrade is required for any derogatory disputed account unless any of the following requirements have been met: • The disputed account has a zero balance • The disputed account is marked as “paid in full”, or “resolved” • The disputed account is **both** • less than $500, ***and*** • more than 24 months old, based on the date of dispute
Credit cont.	Purchase and rate/term refinance transactions are limited to 1 x 30 on mortgage history within the last 12 months. For cash out refinance transactions: • 0 x 30-day mortgage lates on ***any*** mortgage associated with the borrower or property within the last 12 months. • If the current mortgage is seasoned less than 12 months, but greater than 6 months, the borrower must have made all payments when due. • Mortgages with less than 6 months of payment history are not eligible. See Refinance. All streamline refinance transactions require 0 x 30-day mortgage lates within the last 12 months. A single representative credit score is required to be selected for each borrower. A representative score is determined for the borrower and the loan, as follows: Borrower Representative Score: • If a total of 3 scores are obtained for a borrower, the designated score for that borrower shall be the middle score. • If a total of 2 scores are obtained, the lower score will be the designated score for that borrower. Loan Representative Score: • If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers’ scores. • If only one score is available from all three repositories, the one score will be designated as the loan score. Late payments are considered accounted for in the credit score. However, the following items are subject to individual evaluation, no matter how high the credit score: • Bankruptcy, foreclosure, deed-in-lieu, short sale. • Judgments, collections, charge-offs, tax liens. **Bankruptcy** A Chapter 7 bankruptcy (liquidation) does not disqualify a borrower from obtaining an FHA-insured mortgage if at least two years have elapsed since the date of the discharge of the bankruptcy. Additionally, the borrower must have re-established good credit or chosen not to incur new credit obligations. The borrower also must have demonstrated a documented ability to responsibly manage his or her financial affairs. An elapsed period of less than two years, but not less than 12 months, may be acceptable if the borrower can show that the bankruptcy was caused by extenuating circumstances beyond his or her control and has since exhibited a documented ability to manage his or her financial affairs in a responsible manner. Additionally, the lender must document that the borrower’s current situation indicates that the events that led to the bankruptcy are not likely to recur. A borrower whose bankruptcy has been discharged less than one year is not eligible for FHA mortgage insurance (except on non-credit qualifying Streamline Refinances). For cash out transactions >$417,000, prior to the inclusion of UFMIP, the bankruptcy discharge/release date must have been at least 7 years prior to the loan application.

	A borrower paying off debts under Chapter 13 may be eligible if: • One year of the pay-out period has elapsed, and • The borrower's performance has been satisfactory, and • The borrower also receives court approval to enter into the mortgage transaction. **<u>Foreclosure, Short Sale or Deed-in-Lieu</u>** The waiting period (i.e., the amount of time that must pass before the borrower is eligible for A borrower whose previous principal residence or other real property was foreclosed or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible for a new FHA-insured mortgage. However, if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower and the borrower has re-established good credit since the foreclosure, the lender may grant an exception to the three-year requirement.

Credit cont.	Extenuating circumstances include serious illness or death of a wage earner, but do not include the inability to sell the house because of a job transfer or relocation to another area.
	
	For cash out transactions >$417,000, prior to the inclusion of UFMIP, the foreclosure date must have been at least 7 years prior to the loan application.
	
	<u>Purchase or Refinance with a Previous Short Sale Property (not the subject property):</u>
	Borrowers are not eligible if they previously pursued a short sale agreement on a principal residence simply to:
	• take advantage of declining market conditions, and
	• purchase, at a reduced price, a similar or superior property within a reasonable commuting distance.
	
	If the above circumstances do not apply and borrowers are determined to be eligible, then determine the eligibility timeline ("waiting period") based on borrower's payment record:
	• Borrowers current at the time of Short Sale
	    • No "waiting period" if the following are met:
	        • 0x30 on all mortgage payments due on the short sale property within the 12 months preceding the short sale, and
	        • 0x30 on all installment debt payments during the same time period, and
	        • Proceeds from the short sale served as payment in full.
	• Borrower in default at the time of Short or Preforeclosure Sale, or not meeting above criteria:
	    • Eligible if initial loan application is dated:
	        • 3 years following completion of the short or preforeclosure sale (non-FHA loan), or
	        • 3 years following FHA's payment of the claim for pre-foreclosure sales on FHA loans.
	
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Departure Residence	**Existing Primary Residence being converted to Investment Property** HUD allows 2 exceptions for use of rental income on a departing residence: • <u>Relocations</u> – homebuyer relocating due to new employment, or being transferred by current employer to an area not within reasonable and locally recognized commuting distance. • <u>Sufficient Equity in Vacated Property</u> – LTV on existing primary residence is 75% or less (as determined by an appraisal no more than 6 months old, or comparing the unpaid principal balance to the original sales price of the property. If one of the above exceptions is met, the following is required to consider rental income: • Must provide an executed lease agreement of at least one year's duration after the loan is closed • Evidence of security deposit and / or evidence first month's rent was paid to the homeowner (Note: The evidence of security deposit or first month rent is not written into the actual HUD G/L on vacating property, but prudent underwriting.) Back to Top
Documentation	Paystubs and bank statements will be required regardless of DU findings. The underwriter may condition for additional documentation as needed over and above DU findings to

	determine eligibility. Back to Top
Down Payment	The borrower must make a minimum cash investment into the purchase transaction equal to 3.5% of the lesser of the Sales Price or Appraised Value. Closing costs may not be used to help meet the minimum 3.5% down payment requirement. In no circumstances may prepaids or discount points be used to satisfy the 3.5% contribution requirement. Down payment assistances programs are not eligible. Back to Top
Escrow Holdback	Escrow holdbacks or work completion escrows are not allowed. May be considered case-by-case. Back to Top
Flood Insurance	• A flood hazard determination is required for all loans. • Flood insurance is required if the property is located in a special flood hazard area or flood zone. • Properties located in a community that does not have FEMA flood maps are not federally mandated to require flood insurance; therefore, evidence of flood insurance is not required. • Properties mapped in a flood zone, but located in a NFIP Non-Participating community are ineligible. • Flood insurance is required on properties located within the following special flood hazard area zones: A, AE, AH, AO, A1-30, A-99, V, VE, V1-30 • The maximum amount of flood insurance required is the lowest of: 100% of the replacement cost of the dwelling, calculated as appraised value minus land value OR the unpaid principal balance of the mortgage OR the maximum insurance available under the National Flood insurance program. (Currently $250,000 per dwelling.) • The deductible for 1-4 unit properties may not exceed a maximum of $5,000 unless a higher maximum is required by state law. Back to Top
Geographic Restrictions	Loans allowed in CA only. Back to Top

Gifts	Gift Fund Requirements:
	• An outright gift of the cash investment is acceptable if the donor is a relative of the borrower, the borrower's employer or labor union, or a close friend with a clearly defined interest in the borrower.
	• List donor's name, address and phone number, relationship to borrower and dollar amount of gift on the gift letter, signed by the donor.
	• For gift funds already on deposit in the borrower's account, obtain a copy of the donor's withdrawal slip or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit.
	• If the gift funds are not deposited to the borrower's account prior to closing, the following must be obtained:
	    • Verification the closing agent received funds from the donor, including proof of withdrawal, for the amount of the gift.
	    • The use of cashier checks, money order, official check or any other type of bank check will be acceptable provided the donor provides a withdrawal document for the amount of the gift showing the funds came from the donor's own personal account. If the donor borrowed the gift funds, documentation must be provided that the funds were borrowed from an acceptable source, i.e., not from a party to the transaction including the mortgage lender.
	• Cash on hand is not an acceptable source of the donor's gift funds.
	
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Hazard Insurance	• Hazard insurance is required for each property. • The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements. • For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property. • The maximum deductible may be up to 5% of the amount of the policy. **HO-6 Policy (Condo)** Walls-in hazard insurance coverage policy is required (commonly known as HO-6 policy) unless the master insurance policy of the HOA covers the interior of the unit. The HO-6 policy must provide coverage in the amount of at least 20% of the appraised value with a 5% maximum deductible. Back to Top

Income / Employment

Income/employment may be documented per DU. Paystubs will be required regardless of DU findings. The underwriter may require additional income documentation if income does not appear reasonable or income can not be calculated with the minimum required.

Acceptable Sources of Income:
- Wage Earner Income. Commission, overtime, bonus income which has a minimum 2 year history and documented it is likely to continue for the next 3 years.
- Self-Employed: Sole Proprietorship, Partnership, Corporations and S Corporations.
- Non-Employed Income: Alimony/maintenance/Child Support/Separate maintenance, Foster Care, Unemployment/Welfare/ADC, Disability/Worker's Compensation, Retirement/Pension, Social Security, Annuity, IRA, Military/VA Benefits, Trust, Interest & Dividend, Inheritance/Guaranteed Income, Note Receivables, Mortgage Differential/COLA and Rental.
- Income from sources other than the ones addressed may be considered provided the borrower has received the income for a least 2 years and documentation supports that it will continue for at least 3 years.

Unacceptable Sources of Income:
- Income based on future earnings
- Draw Income
- Capital withdrawals
- VA Education Benefits
- Income from Mortgage Credit Certificates
- Illegal Income/Income not listed on Tax Returns
- Any income that cannot be documented and verified

Rental Income for Investment Properties:
Rent for multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying. Projected rent for tenant-occupied units may:
1) Only be considered gross income, after deducting the HOC vacancy and maintenance factor; AND
2) Not be used to offset the mortgage payment

Rental income supported by a lease with a family member or other interested party is not acceptable.

Streamline Refinance Transactions:
The following income documentation is required for FHA streamline case numbers assigned on or after March 11, 2010. Type and amount of income must be disclosed on 1003.

Type of Income	Documentation
W-2 Wages	Verbal VOE
Self-Employed	Verification of borrower's business e.g. most recent quarterly tax payment/CPA letter/current unexpired business license
Alimony/Maintenance Child Support	Divorce decree/settlement agreement/court payment record
Annuity	Most current institutional statement
Interest/Dividend	Document showing ownership of interest bearing account/current statement showing interest income
IRA/Keogh/401k	Most current bank statement/letter from administrator
Note Income	Note/most current statement
Pension/Retirement	Most current bank statement/award letter/W-2/1099
Rental Income	Current lease
Social Security Retirement/Survivor's Disability Income	Award letter/most current deposit statement
Trust Income	Trust agreement or trustee's statement
VA Benefits	Award letter or most current deposit statement

Income / Employment cont.	**Employment Gap:** Income from borrowers who re-enter the workforce and currently have less than a two-year employment and income history may be used to qualify, if • The borrower has been at the current employer for a minimum of six months, and • There is evidence of a previous employment history. **Written VOE:** A written VOE is required when utilizing other income for qualifying over and above base pay (commission, bonus, or overtime). A written Verification of Employment (VOE) may be used to verify employment along with a paystub dated within 30 days of the loan application. **Verbal Verification of Employment (VVOE) is required as follows:** • A verbal VOE must be obtained within 10 calendar days prior to the Note Date for borrowers with wage earner income. • A verbal VOE must be obtained within 30 calendar days prior to the Note Date for self-employed borrowers. **3rd Party Verification for the Self Employed Borrower:** • Verify the existence of the borrower's business from a third party that may include a CPA, regulatory agency, or appropriate licensing bureau; and • Verify a phone listing and address for the borrower's business through resources such as the telephone book, directory assistance, internet, or contact the appropriate licensing bureau. • A verbal VOE from a CPA is not an acceptable third party verification for self-employed borrowers. • Internet sites such as 411.com, Chamber of Commerce sites and Manta.com where they allow the business owner to add their own information are not acceptable. • Single source verifications, such as from superpages.com, yellowpages.com and searchbug.com is not allowed **IRS Form 4506-T** – a signed and processed IRS Form 4506-T is required on all loans to obtain the borrower(s)'s tax return transcripts for the two years prior to the loan application, regardless of income or documentation type. All borrowers must sign the IRS Form 4506-T at application and closing; only the form signed at application must be processed. All forms and transcripts must be included in the loan file. This form is required for each borrower on the loan. Mega Capital will obtain transcripts directly from a tax transcript vendor or the IRS, rather than accepted from a borrower or third-party originator. Tax Transcripts are not allowed to take the place of a required Tax Return. Neither Form 4506-T or Tax Return Transcripts are required on a non-credit qualifying FHA streamline refinance. If an automated underwriting system (DU) response requests more than the most recent tax transcripts, the additional transcripts are required. Back to Top
Interest Only	Not Allowed. Back to Top

Loan Amount

There is no minimum loan size.

Maximum Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county. Maximum Loan Limits (excluding UFMIP) are as follows:

Standard Mortgage Limits				
Region	**1 Unit**	**2 Units**	**3 Units**	**4 Units**
"Low Cost Area" (Floor)	$271,050	$347,000	$419,425	$521,250
"High Cost Area" (Ceiling) – Minimum High Balance Amount*	$417,000	$533,850	$645,300	$801,950
High Balance Maximum (Ceiling)	$625,500	$800,775	N/A	N/A

*All High Balance guidelines apply when the BASE mortgage amount is above the Minimum High Balance Amount.

The current loan limits for each county can be found at: https://entp.hud.gov/idapp/html/hicostlook.cfm

ARM loans are not allowed on High Balance.

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Mortgages to One Borrower

The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower. Mega Capital will finance up to 4 (1 primary, 1 second home and 2 investment) properties for a borrower not to exceed an aggregate amount of $2,000,000.

FHA generally will not insure more than 1 FHA loan to a borrower.

Exceptions: Relocation, increase in family size, vacating a jointly owned property as long as one of the borrowers occupies the residence, and a non-occupying borrower.

If the aggregate dollar amount of all loans to one applicant from Mega Capital (including the amount of the new loan) exceeds $1,000,000, the loan request may require approval by Credit Policy.

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Non-Arms Length Transaction	Non-Arms length transactions, or as FHA refers to them as Identity-of-Interest transactions on principal residences are restricted to a maximum loan-to-value of 85%. Identity-of-Interest is defined as a transaction between family members, business partners or other business affiliates. However, maximum financing above 85% LTV is permissible under the following circumstances: • A family member purchasing another family member's principal residence. • An employee of a builder purchasing one of the builder's new homes or models as a principal residence. • A current tenant purchasing the property that he or she has rented for at least 6 months immediately predating the sales contract. A lease or other written evidence must be submitted verifying occupancy. • Sales by corporations that transfer employees out of an area, purchase the transferred employee's home and then resell to another employee. If a property being sold from one family member to another is the seller's investment property, the maximum mortgage is the lesser of either: • 85% of the appraised value OR • The appropriate LTV factor applied to the sales price, plus or minus required adjustments. Back to Top

Non-Occupant Co-Borrowers	• Co-borrower must take title to the property and sign the note and the mortgage
	• The co-borrower cannot be the seller, builder, real estate agent, etc.
	• Income, assets and debts from all borrowers (including co-borrower) are used in qualifying
	• Non-occupant must have a principal residence in the U.S.
	• Co-borrower does not have to occupy the property
	• Non-Occupant Co-Borrowers are not allowed on High Balance loans.
	• 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.
	• If the LTV exceed 75% and the co-borrower will not occupy, the following additional requirements must be met:
	  • Subject must be a one unit property
	  • The co-borrower must be a close family member (child, parent, grandparent, spouse, adopted child or step child) or have a long-standing relationship (must be able to document) with the borrower.
	  • If parent is selling to child, the parent cannot be the co-borrower unless the LTV is <=75%.
	
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Non-Purchasing Spouse	• A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected. • Non-Borrowing Spouse for streamline refinances, no credit report required. • Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her. • The debts of the non-purchasing spouse must be included in the borrowers DTI. • The greater of the monthly payment amount or 5% of the outstanding balance if minimum payment is not reflected on credit report of the non-purchasing spouse must be included in the qualifying ratios. • All defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing. • Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute. • Credit history of the non-purchasing spouse should not be the basis for declining the loan. • Community property state laws are effective when married and domicile in same state. • Debt acquired prior to the marriage can only be excluded from the DTI analysis with a specific Pre-marital agreement. • Collection accounts of the non-purchasing spouse to be satisfied at the discretion of the DE Underwriter. Back to Top

Number of Properties	To prevent circumvention of the restrictions on FHA-insured mortgages to investors, FHA will not insure more than one mortgage for any borrower except under certain conditions.
	A borrower may not own more than one FHA insured property unless:
	• Borrower is relocating to another area not within reasonable commuting distance of present home; OR
	• Borrower had to vacate a residence that will remain occupied by a co-mortgagor due to new marriage or divorce; OR
	• Borrower is a non-occupying Co-borrower for a family member on another FHA mortgage. OR
	• An increase in family size, which has resulted in the present house being ill equipped to meet the family's needs.
	    • The borrower must provide satisfactory evidence of the increase in dependents and how the property no longer meets the family's needs.
	    • Borrower must also pay down the outstanding mortgage balance on the present property to 75%. A current appraisal must be used to determine loan-to-value compliance.
	
	The maximum number of properties financed for an FHA borrower is four including the subject property, whether conventional or government mortgages.
	
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Occupancy	Owner Occupied Primary Residence Non-Owner Occupied allowed on Streamline Refinance without an Appraisal only (Not allowed on High Balance loans or ARM loans) Back to Top
Prepayment Penalty	No prepayment penalty. Back to Top

Property Types

Eligible

- Detached SFRs
- Detached PUDs
- Condos (FHA Approved)*
- 2-4 Units[1,2]
- Rural Properties

1 2-4 units are not allowed for second homes. 2-4 units not allowed on Streamline Refinances. 3-4 units not allowed on High Balance loans.
2 3-4 units ratio of monthly payment divided by monthly net rental income cannot exceed 100%

<u>*Condominium Project Approval</u>

Loans that have been approved under the DELRAP review process are not allowed. The project must have been added to the FHA Condominiums List as a result of a prior transaction/approval and not added based on the current transaction.

As part of the new process, the FHA "Lender Certification for Individual Unit Financing" form must be signed and dated for each transaction.

- Condominium project approval is not required for detached site condominiums; however a Condominium Rider must be executed.
- Condo must be on FHA's approved list.
- Spot approvals are not permitted.

Documentation Requirements:

- Printed copy of the FHA-Approved Project page must be retained in the loan file.
- Insurance: Evidence the project is covered by appropriate hazard, liability, fidelity bond, H06 coverage and if applicable flood insurance.
- Appraisal

<u>Rural Properties</u>

- A rural area relates to the country or anything beyond the suburban area.
- The primary dwelling for properties in rural areas must represent 70% or more of the total appraised value of the property. Outbuildings such as barns or stables are not considered in the 70% calculations.
- Working farms, ranches, orchards, and/or commercial operations are not permitted.
- Properties with outbuildings require special consideration.
  Properties with *minimal* outbuildings, such as a small barn or stable that are of relatively insignificant value in relation to the total appraised value are acceptable if they are typical residential improvements and support the residential use for the location and property type. Comparable sales with similar improvements should show they are typical and have an existing market. A property with an atypical minimal outbuilding is still acceptable as long as the appraiser's analysis reflects little or no value for it.
  Properties with *significant* outbuildings must be reviewed with great care, regardless of whether the appraiser assigns any value to them or not. Their existence may indicate the property may be used for agriculture or other income producing purposes.
- Properties on a privately maintained road are eligible with a recorded private road maintenance agreement.
- Rural properties greater than 10 acres are not allowed.

Ineligible

- Non-warrantable Condos
- Manufactured Homes
- Condotels
- Working farms, ranches, orchards and/or commercial operations
- Properties on Mega Capital ineligible projects list
- Properties with Deed Restrictions
- Properties with Tandem Room
- Unpermitted conversions are not acceptable and must be converted back to its original intent
- Unpermitted structures are not acceptable and must be removed

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Property Flipping	**Sales within 0-90 days of seller's acquisition:** (calculated from seller's acquisition date to new purchase contract date)
	• Reference ML 2006-14 and Waiver of 24 CFR 203.37a(b)(2). The waiver is effective for purchase contracts executed February 1, 2010 through December 31, 2012.
	• The 90-day flip waiver will be allowed if the sales price is < 20% over the seller's acquisition cost for all property sellers, including private sale transactions.
	• All transactions must be arms-length; no identity of interest between buyer, property seller or third parties. Specific ways to ensure an arms-length transaction include:
	  ◦ Property seller currently holds title to the property.
	  ◦ LLCs, corporations or trusts serving as property sellers must meet all applicable state and federal law.
	  ◦ No pattern of previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months).
	  ◦ The property was marketed openly and fairly.
	• The 90-day flip waiver will **not** be allowed if the sales price is > 20% increase over the seller's acquisition cost **(except for the exempt transactions noted below).**
	• The following **exempt transactions** are **not** subject to the 20% increase limitation:
	  ◦ Re-sales of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is *bona fide* relocation agencies that contracts with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
	  ◦ Property inherited by the seller. Since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The file must include documentation evidencing the inheritance.
	  ◦ Sales by other U.S. Government Agencies of single family properties pursuant to programs operated by these agencies.
	  ◦ Sales of properties by non-profits approved to purchase HUD-owned single family properties at a discount with re-sale restrictions.
	  ◦ Sales of properties by state and federally charted financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). **Note**: Mortgage Insurance (MI) companies are not included.
	  ◦ Sales of properties by local and state government agencies.
	  ◦ Sales of properties within Presidentially-Declared Disaster Areas (upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster).
	  ◦ Sales by HUD of its Real Estate Owned.
	
	Note: Foreclosure Sales acquired by state licensed mortgage lenders and/or servicing lenders, whether sold directly by the mortgage lender or their subsidiaries; or by vendors to whom they have transferred titles to properties for the purpose of effectuating sales of those properties are no longer exempt. **This temporary exemption applied to loans for which the sales agreements were signed by the seller and buyer prior to 5/10/2010**. See June 6, 2008 waiver.
	
	Sales within 91-180 days of seller's acquisition: A second FHA appraisal is required if the sales price has increased by **100%** or more. The borrower may not be charged for the appraisal. This requirement does not apply to exempt entities listed above.
	
	Sales within 91-365 days of seller's acquisition: If the sales price has increased by **20%** or more, FAMC will use internal valuation products and/or require documentation to support the increased value including any rehabilitation or remodeling. If the increased value cannot be supported by either of these methods, then a second FHA appraisal may be required at the discretion of the underwriter.
	When a second appraisal is required and the appraised value is more than 5% lower than the first appraised value, the second appraisal must be used to calculate the maximum mortgage amount.
	
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Purchase Transactions	Renegotiated purchase agreements that increase the sales price after the original appraisal is completed are not eligible. Back to Top
Properties Listed for Sale	A property listed for sale within the last 6 months preceding initial loan application, **but is now canceled** is allowed on rate/term refinance (not Cash out) transactions subject to the following: • the property's listing history in the subject section of the appraisal; • Evidence that the listing agreement was cancelled at least 1 day prior to application. • evidence a search was made of the Multiple Listing Service (MLS); and • the borrower's confirmation of their intent to continue to occupy the subject property as their primary residence and a reasonable explanation for removing the house from the market. • Streamline refinances without an appraisal are not subject to this guideline. Back to Top

Property Inspections	**Termite, Well and Septic Inspections**
	• Properties ***under one year old*** require mandatory inspection, treatment and testing, even if previously occupied.
	• For existing properties ***over one year old,*** inspection and/or testing is only required if:
	    • The appraisal indicates there may be a problem or that problems are common in the area.
	    • Mandated by the state or local jurisdiction (See below).
	    • Required by the sales contract.
	    • A water purification system is present. If the water supply does not test safe without the purification system, then additional requirements must be met.
	    • the property has been vacant for more than 30 days (applies to septic systems only).
	    • the utilities (water, gas, electric) are NOT on at the time of appraisal. Appraiser to condition for further inspection to determine if the utilities are in proper working order.
	    • Wells and Other Water Systems: must meet all FHA requirements
	    • Septic Systems: must meet all FHA requirements
	
	State and Local Requirements
	Lender will generally rely on the appraiser and Realtor (via the sales contract) for notification of mandatory state or local inspections.
	
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Ratios/Qualifying Rate	31%/43% or as allowed by DU and Total Scorecard No ratio requirement on Streamline Refinances Documented Energy Efficient Home: 33%/45% For new construction properties, borrowers should be qualified using the estimated real estate taxes based upon the completed property improvements, not the unimproved lot taxes. • Pay off of installment debt or revolving debt is acceptable. Accounts may not be paid down to 10 months or less for qualifying. • All revolving debts that are paid off with loan proceeds must be closed out. • If a revolving account is to be paid off but not closed, it will be considered long term debt. The borrower will need to qualify with the monthly payment that is currently being reported on the credit report. • 30 day accounts that have a large balance require the borrower to have sufficient funds to pay them off monthly. All loans qualify at the note rate. Back to Top
Refinances	HOPE for Homeowners program is not available. New subordinate financing is not allowed on any refinance transaction. **Refinancing of a Former Investment Property** (effective with case numbers assigned on or after 4/14/11 per ML 2011-11) The maximum mortgage amount available for borrowers who re-occupy their former investment property as their primary residence and wish to refinance are subject to the following restrictions: • If occupancy of the former investment property was 12 months or more prior to the loan application date then maximum financing as an owner occupant is allowed. • If occupancy of the former investment property was less than 12 months prior to the loan application date then the loan is eligible as a rate-term refinance (no streamline allowed) with a max LTV of 85%. Back to Top

Refinance - Rate & Term	**Rate and Term Refinances with Appraisals:** The maximum mortgage is the *lower* of the LTV limitation or the existing debt calculation described below, and may never exceed the geographical statutory limit except by the amount of any new UFMIP:
	• LTV Ratio Applied to Appraised Value: Multiply the appraised value of the property by 97.75 percent. Any appraisal requirements, including repairs, must be satisfied before the mortgage is eligible for insurance endorsement.
	• Existing Debt: Add together the amount of the existing first lien, any purchase money second mortgage, any junior liens over 12 months old, closing costs, prepaid expenses, borrower paid repairs required by the appraisal, discount points, and then subtract any refund of UFMIP.
	
	Note: If any portion of the funds of an equity line of credit in excess of $1000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, the line of credit is *not* eligible for inclusion in the new mortgage.
	
	The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages). The amount also may include any prepayment penalties assessed on a conventional mortgage.
	
	In determining the existing debt as part of the mortgage amount calculation, the mortgagee may include accrued late charges and escrow shortages.
	
	Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums, and any real estate tax deposits needed to establish the escrow account regardless whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.
	
	Additional underwriting and eligibility criteria:
	• The mortgage being refinanced must be current for the month due, e.g., a refinance of a mortgage anytime in November must have had the October payment made.
	• Combined Loan-to-Value (CLTV) Requirements for FHA Refinance Transactions refer to HUD Mortgagee Letter 2010-24. Effective with case numbers assigned on or after September 7, 2010, FHA refinance transactions will have lower CLTV requirements as follows:
	  • The maximum LTV/CLTV on FHA Rate and Term Refinances is 97.75%
	  • Financed Upfront MIP is not included in the calculation of the CLTV for any refinance types.
	  • The combined amounts of the FHA first lien and any subordinate liens may not exceed the applicable county loan limit.
	  • Second liens that have been modified may use the modified total lien amount to calculate the CLTV ratio, provided an executed and recorded modification agreement is supplied.
	• Incidental cash back is limited to $500 and must be due to minor changes at closing.

Refinance - Rate & Term cont.	If the property was acquired less than one year before the loan application and is not already FHA insured, the original sales price of the property (rather than the appraised value) must be used in determining the maximum mortgage. Expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price when calculating the mortgage amount. Benefit to Borrower Unless the new loan is refinancing ARM-to-fixed, reducing the term, or providing a cash-out benefit to the borrower, then FHA refinance transactions should generally meet at least 2 of the following criteria, or provide an acceptable alternative benefit to borrower. • Borrower's payment reduced by at least 5% or $50, whichever is less. • Borrower's interest rate reduced at least 1%. • Closing costs (not including prepaids) recaptured through the monthly PITI savings in 5 years or less. Back to Top

Refinance - Cashout	**Cash out Refinance Transactions**
	The maximum LTV for Cash out refinances is limited to 85% regardless of length of ownership.
	
	In addition, the following guidelines apply.
	• Length of Ownership - If the property has been the borrower's principal residence and owned for:
	    • At least 12 months preceding the loan application, the borrower may obtain the maximum of 85% of the appraiser's estimated value.
	    • Less than 12 months preceding the loan application, the mortgage amount is limited to 85% of the lesser of the appraised value or the subject property's sales price when acquired
	• Borrower's who are delinquent or in arrears are not eligible for a cash out refinance.
	• No lates in the past 12 months. For borrowers with more than 6 months and fewer than 12 months of payment history, the borrower must have made all payments when due. Mortgage with less than 6 months payment history are not eligible for cashout refinances.
	• Non-Occupant Co-Borrowers/Co-Signers: Any co-borrower or co-signer being added to the note must be an occupant of the property securing the new FHA-insured mortgage. Non-occupant co-borrowers or co-signers **may not** be added in order to meet FHA's credit underwriting guidelines for the cash-out refinance.
	• Subordinate Liens and Combined Loan-to-Value (CLTV):
	    • New Subordinate Financing: Not allowed.
	    • Re-Subordinate: Existing subordinate financing may remain in place, but subordinate to the FHA-insured first mortgage as long as the CLTV does not exceed 85%, provided the borrower qualifies for making scheduled payments on all liens.
	    • Modified Subordinate Lien: Subordinate lien holders have been requesting modifications to the terms of the lien (typically a reduction in the amount of the lien) in exchange for remaining in a subordinate position. Modifying the subordinate lien in this manner when re-executing at closing is acceptable to FHA and not considered a new subordinate lien as long as the CLTV does not exceed 85%.
	
	High Balance cashout loans
	• 680 minimum FICO required
	• Maximum $100,000 cashout
	• 2nd Appraisal is required
	• No bankruptcies in most recent 7 years
	
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Refinance - Streamline	Luther Burbank is currently not accepting FHA Streamlines. The maximum term is the lesser of 30 years or the un-expired term of the loan plus 12 years rounded down to 15, 20 or 25 years. 2-4 unit properties not allowed. High Balance loans require minimum FICO 680 and 0 x 30 mortgage history for the last 12 months. The FHA Streamline Refinance program is designed to lower the monthly principal and interest payments on a current FHA-insured mortgage. Streamline Refinances are subject to the following requirements: • Cash-back to the borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed $500. • Allowed with or without an appraisal. • If assets are needed to close, the assets used for closing must be verified on two months bank statements. • Must result in an immediate payment reduction to the borrower. Credit qualifying streamline refinance must be considered when payment increases more than 20%. • Streamline Refinances are eligible for jumbo loan amounts. • 0x30 day late in the past 12 months. • At the time of the loan application, the borrower must have made at least 6 payments on the FHA mortgage being refinanced. • If subordinate financing will remain in place the CLTV must be based on the original appraised value and may not exceed 100% The maximum insurable mortgage is the Outstanding Principal Balance and new UFMIP only. Note: The mortgagee may NOT add closing cost, discount items, prepaid items or other financing cost to the new loan balance. 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. ***Net Tangible Benefit*** Reducing the term of the mortgage, in and of itself, is not a net tangible benefit. Also when refinancing to a Hybrid ARM, mortgagees must treat the new Hybrid ARM as a Fixed Rate Mortgage. The following defines the permissible minimum thresholds in different refinance situations and outlines what is the new guidance. **"The Net Tangible Benefit " is defined as**: • A 5% reduction to the P & I of the mortgage payment plus the annual MIP or • Refinancing from an Adjustable Rate Mortgage (ARM) to a fixed rate mortgage Fixed Rate to Fixed Rate: Reduction of at least 5% of P & I & MIP Fixed Rate to Hybrid ARM: Reduction of at least 5% of P & I and MIP **Hybrid Arm During Fixed Period** • Hybrid ARM to Fixed Rate: Reduction of at least 5% of P & I and MIP • Hybrid ARM to Hybrid ARM: Reduction of at least 5% of P & I & MIP **Hybrid ARM during Adjustable Period** • Hybrid ARM to Fixed Rate: New interest rate no greater than 2 % above current interest rate of Hybrid ARM • Hybrid ARM to Hybrid ARM: New interest rate at least 2% below the current interest rate of Hybrid ARM and the total payment must not increase more than 20% of the current total payment. Back to Top

Rent Loss Insurance	If the subject property is a 1-4 unit investment property or a 2-4 unit property and rental income is used to qualify the borrower, rent loss insurance is required. This insurance covers the borrower for rental income losses incurred when the property is rendered un-rentable due to a direct physical loss, such as a fire. Coverage must be equal to a minimum of six months of gross monthly rent, and must be maintained as long as the mortgage is outstanding. Back to Top
Reserves	**1-2 Units:** per DU approval. **3-4 Units:** 3 months PITI (Purchase and refinance Transaction), regardless of DU approval. For purchase and refinance transactions, the subject property must be "self-sufficient." This means that the gross rents less the vacancy factor for all units, including the owner occupied unit, must be equal to or greater than the total payment for the subject property not to exceed 100% debt service. Back to Top
Seller/Interested Party Contributions	Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Contributions from interested parties are acceptable with the following limitations: • Maximum contribution is 6% of the property's sales price towards the buyer's actual closing costs, prepaid expenses, discount points and other financing concessions. • Included in the 6% limitation are buydown funds and payment of the UFMIP. Back to Top
Source of Funds	Unacceptable source of funds include: • Personal or unsecured loan/line of credit • Gifts that require full or partial repayment • Cash advance from a revolving credit card • Cash on hand Back to Top
Subordinate Financing	Allowed to the maximum CLTV limits as shown in the Maximum LTV/CLTV heading. Secondary financing funds may be provided by a family member (child, parent, grandparent, spouse, adopted son or daughter, stepson or stepdaughter) • 100% of funds for down payment, closing costs, prepaid expenses and discount points may be from a secured or unsecured loan from a family member Note: Community Seconds are not allowed. If subordinate financing is in the form of a home equity line of credit the entire lien must be subordinated to the new first mortgage and the entire line must be used to calculate the CLTV. New subordinate financing is not allowed on refinances. On refinances, existing subordinate financing that 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 is not eligible for re-subordination. Back to Top
Temporary Buydowns	Not Allowed. Back to Top
Title Documentation	The preliminary title report must reflect a minimum 24 month title history. A full ALTA title policy is required. **Surveys** A new survey is not required on refinances provided the borrowers and/or the title company certifies that there no changes from the original survey, or matters regarding the survey are insured over by the title company. Settlement agent must not be on investor's ineligible list. Back to Top

Trusts

Trusts are not allowed.

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UFMIP

Effective with Case numbers assigned on or after April 9, 2012:

Mortgage Term Greater Than 15 Years:		
LTV	**Upfront (UFMIP)**	**Annual Premium-Paid Monthly**
<=95.00	1.75%	1.20%
>95.00	1.75%	1.25%
Mortgage Term less than or Equal to 15 Years		
LTV	**Upfront (UFMIP)**	**Annual Premium-Paid Monthly**
<=78.00	1.75%	0.00%
78.01 - 90.00	1.75%	0.35%
>90.00	1.75%	0.60%

Effective with Case numbers assigned on or after June 11, 2012:
(Continue to refer to the chart above for base loan amounts less than $625,000)

Mortgage Term Greater Than 15 Years:			
Base Loan	**LTV**	**Upfront (UFMIP)**	**Annual Premium-Paid Monthly**
>$625,500	<=95.00	1.75%	1.45%
>$625,500	>95.00	1.75%	1.50%
Streamline Refinance for FHA loans endorsed on or before May 31, 2009 ONLY			
Any loan amount	Any LTV	0.01%	0.55%
Mortgage Term less than or Equal to 15 Years			
Base Loan	**LTV**	**Upfront (UFMIP)**	**Annual Premium-Paid Monthly**
>$625,500	<=78.00	1.75%	0.00%
>$625,500	78.01 - 90.00	1.75%	0.60%
>$625,500	>90.00	1.75%	0.85%
Streamline Refinance for FHA loans endorsed on or before May 31, 2009 ONLY			
Any loan amount	Any LTV	0.01%	0.55%

Effective with Case numbers assigned April 18, 2011 to April 8, 2012:

Mortgage Term Greater Than 15 Years:		
LTV	**Upfront (UFMIP)**	**Annual Premium-Paid Monthly**
<=95.00	1.00%	1.10%
>95.00	1.00%	1.15%
Mortgage Term less than or Equal to 15 Years		
LTV	**Upfront (UFMIP)**	**Annual Premium-Paid Monthly**
<=78.00	1.00%	0.00%
78.01 - 90.00	1.00%	.25%
>90.00	1.00%	.50%

UFMIP Notes:

- The number of years will be determined when the loan balance equals 78% LTV, provided that the borrower has paid the annual MIP for at least 5 years, (scheduled or actual.)
- Loan amount multiplied by Annual premium, divided by 12 months equals monthly MIP.
- All FHA loans will have upfront and monthly premiums.
- Pricing and loan program eligibility are determined using the base loan amount prior to financing UFMIP.
- UFMIP must be 100% financed into the mortgage or paid entirely by cash: partial financing not allowed.

Streamline Refinances

The LTV on streamline refinances without an appraisal will be based on data regarding the mortgage being refinanced, including sales price and appraised value amounts residing in FHA's Single Family Insurance System (SFIS). FHA will compute a new LTV by dividing the new loan amount, exclusive of any upfront MIP, by the lower of the sales price or appraised value amount. From this computed LTV, FHA will determine the 78% threshold is reached based on the scheduled amortization. If the computed LTV is not possible, due to missing data or previous refinancing without an appraisal, the new LTV will default 89.9 percent.

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Underwriting	Delegated. All loans must be submitted thru DU and access FHA's TOTAL Mortgage Scorecard (excluding Streamline Refinances) and receive an Approve/Accept finding. Regardless of the assessment provided by TOTAL, all loans must meet FHA's eligibility requirements as well as any credit, capacity and documentation requirements not covered in the TOTAL User Guide. The TOTAL User Guide can be found at: http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/04-47ug.doc Manual underwriting is not allowed (excluding Streamline Refinance). **FHA Guidelines**. All loans must be in compliance with published FHA and Mega Capital guidelines. Loans must be documented according to the requirements of the findings report. Bank statements and Pay stubs will be required regardless of DU findings. Borrowers purchasing a home that is being sold under a short sale are generally eligible provided: • The transaction is arm's length involving a realtor and formal sales contract. • There is no relationship or identity of interest between buyer and seller. • Short sale approval letter from all existing mortgage lien holders accepting the discounted sales price on the subject property must be provided and retained in the loan file. • All liens are extinguished with the sales proceeds. • Any earnest money deposits must be verified with a bank statement or a print out from the bank at the time the earnest money check cleared the borrower's account, regardless of amount. • Full interior/exterior appraisal is required, regardless of DU. • The borrower is not involved in negotiations with the lien holder(s) to facilitate the short sale. Loans insured by the FHA under any combination of the following: <table><tr><th>Eligible Section of the Act</th><th>ADP Code</th><th>Brief Description</th></tr><tr><td>203(b)</td><td>703</td><td>Fixed rate loan</td></tr><tr><td>203(b)</td><td>734</td><td>Fixed Rate Condominium</td></tr></table>The following Program ID Codes are acceptable with the above ADP Codes: 00 - No Special Program Code - standard Loans with Program Codes other than "00" should be identified by including the program code on the FHA Loan Underwriting Transmittal Summary Form 92900-LT. FHA loans originated under other combinations are not eligible. **HUD Repos** are acceptable as long as they are owner-occupied and adhere to regular FHA underwriting standards. **<u>CAIVRS, LDP, GSA Search</u>** • Check the FHA Connection and document the results on the FHA Loan Underwriting and Transmittal Summary • A copy of the FHA Connection screen results for all searches must be in the loan file. • If the name of any party to the transaction appears on any of the list below, the application is not eligible for mortgage insurance. An exception may be made when a seller appears on the LDP list and the property being sold is the seller's principal residence. • Search CAIVR: for all borrowers, co-borrowers and co-signers if applicable. • Search LDP and GSA: for all borrowers, sellers, listing and selling real estate agents, loan processors, loan underwriter, loan officers and settlement agents. The appraiser, termite co, and all licensed professionals contacted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched. Back to Top